



KOPERNIK GLOBAL INVESTORS, LLC

**Edited Transcript of the 4th Quarter 2023
Conference Call with David Iben and Alissa Corcoran**

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Mary Bracy: Good afternoon, everyone. I'm Mary Bracy, Managing Editor of Investment Communications here at Kopernik. We're pleased to have you join us today for our Fourth Quarter 2023 Investor Conference Call. As a reminder, today's call is being recorded. There will be a Q&A session at the end of today's call. At any point during the presentation, please type your question into the Q&A box, and we will get to as many of them as we can. Now I will turn the call over to Mr. Chris Lopez, who will provide a quick firm update.

Chris Lopez: Thank you, Mary. Appreciate that. Happy New Year to everyone. Before I pass the call to Dave and Alissa, I'll be providing a quick firm update. From an asset standpoint, we ended the year with roughly \$6 billion under management in a market environment which has been brutal for active managers and for true dedicated value managers. We are extremely pleased with having grown our total assets by roughly 6% in 2023.

Moving on to the personnel side, we continue to bolster our team with the addition of two new research associates. We are currently 43 employees strong, [and] have been very stable with minimal turnover since inception of the firm. Please note, Dave and Alissa will be referring to the presentation which can be found on our website, kopernikglobal.com, under the News & Views section. Also, while on the website, you can access Dave's newest commentary called [Money](#) and a year-end letter [\[The Nifty Seven\]](#) by Alissa. Both have been very well received by our clients. That concludes the non-investment update. With that, I'll pass the call over to Dave and Alissa. Dave, please go ahead.

Dave Iben: Okay. Thank you, Chris, and thanks to everybody for joining us. Each quarter just gets more interesting than the previous quarter. The fourth quarter was no exception. Let's start with the big news from the quarter. Inflation is dead, or at least that was the view of the market. That's what we would like to spend some time talking about. Certainly, this view set off one of the most speculative markets on record, all in the last two months. It's amazing how much has changed since we last talked three months ago.

Back then rates were going up, stocks were going down, people were worried about recession. A lot of negativity out there. No negativity left. It's always been interesting to us to see how quickly sentiment changes in the market. Is inflation dead? The premise might be correct, but there's a lot of evidence that suggests they're wrong. Let's start out with history. History going back further than my lifetime. There has been no deflation.

It's been inflation every single year since 1954. Obviously, not counting the Great Depression, which was a different time and was on the gold standard. There has been no deflation. People tend to be confusing first derivatives with second derivatives as well. Used to be people were hoping to get up to 2% inflation. We took a long time to get there. Then they said, if we get above that, we will quickly do something about it. They didn't at four or six or eight. When it got to nine, they finally started to do some things. Now the rate of inflation has gone from nine back to three.





Now, three was something that used to be considered too high. Now it's something that makes people believe that inflation is dead, and it's time to ease. They may ease, but inflation is not dead. 2%, that's a 2% increase in inflation. You can see on the chart on this page that it continually goes up, sometimes at a faster rate and sometimes at a slower rate, but it goes up and continues to go up.

Another thing to consider is we thus far have been doing like everybody else and saying CPI is inflation. Of course, CPI is not inflation. It is a measure of only consumer prices. It's a measure put together by government bureaucrats. It's a measure that is continually adjusted through hedonics and changes in the basket. They've repeatedly changed it to make that number lower. Here we have some charts showing that if they use the measures they used to use without the adjustments, see how much higher the inflation would be.

Quite likely, inflation is much higher than 3%. We will leave it up to each of you to make up your own minds on whether the costs are going up or down for you when you're buying food or medicine or entertainment or housing, or you name it. Interesting times. Anyhow, does it matter? Inflation is a loss of purchasing power. You can see, as they've printed money on the left, the purchasing power of the dollar has gone down. It's gone down 98%, 99% just in my lifetime. That was during the good times.

Monetary inflation matters because that is a devaluation of the dollar, which eventually affects prices. If the amount of money matters, let's talk a little bit about money. We will not talk much about it. For those that would like to learn more about the things we're talking about in this presentation, Alissa just wrote a very good letter that can be found on our website. A few weeks back, I did a whole commentary just devoted to the subject of money. Please prefer to that if you would like to know more.

Very briefly, it was interesting. Some of us doing research down in Argentina, as we mentioned last time, were able to go to the Central Bank Museum, which is interesting. And few countries are better qualified to talk about the effects of printing too much money. They've had lots of inflation, and they've also had a lot of problems with society and government and corruption. You name it, printing money has a cost. We talk about that. Of the functions of money: store of value, medium of change, unit of account.

Today we'll only talk about store of value. That is where fiat currency always has and arguably always will fail. It is no wonder. Basically, a fiat currency is backed by nothing but the trustworthiness of politicians. There have been reserve currencies. Usually, it's the stronger empires of the world that have the most trade and the most power that people use. It's been Portugal, Spain, Netherlands, France, Britain for a long time. Now, the U.S. has had this luxury of everybody trades in our goods and funds our deficits. It is what it is.

We've read lots of books and articles. It's interesting that maybe the person that has the best grasp of what money is a comedian, Dave Berry. Got some excerpts here, but highly recommend his book. He points out a lot of things. One is that it [money] has value just because we believe it has value. Over time, when you abuse that privilege of a reserve currency, people start to lose their faith in it. Once they stop believing, usually things get a lot worse.

Where are we now? We are in the process of the U.S. really abusing our privilege as the reserve currency. We've increased the amount of money by about tenfold. Meaning, we've trashed its value by 90%. We talk a lot about the Cantillon effect and how it takes often some time for this devaluation to get into the system and additionally affects some things more than others. That's something to think about. Now, people can point out that the last couple of years there's been a decrease in the money supply, so a monetary deflation.





This is true, but we'll point out if you go from \$1 trillion to \$10 trillion and then back to \$8 trillion, that deflation or inflation, we would say, it's part of a centuries-long inflationary thing where it comes in waves. They've decreased it for a while. One of the few places that we agree with the majority out there, I think everybody out there understands, and we agree, they will start printing again as soon as there's some pain in the system.

Why will they print money? I think politicians have realized that the best way to get votes is to promise largesse to the population. Then, if you need the money, this comic on the left captures it. Why would I worry about the federal budget? It's not like we can just print money. Then I remembered we're the government. Of course, we can just print money. This is the lesson of history. They can just print money, which allows them to finance deficits.

You can see here the deficits, the government spending more than they bring in, pretty consistently negative. It was positive for a few years during the dot-com bubble, but even there, debt increased, so I think it was an accounting issue. Deficit spending is endemic in the system. If the government is predicting \$2 trillion a year in deficits, it'll probably be worse than that. That's, of course, if there is no recession. They are spending. They're spending like crazy.

The result has been a massive increase in debt, increase not just absolute, but relative to the size of the economy. It's gotten very, very big. There's repercussions to it getting very, very big. That doesn't seem bad enough. Look at the off-balance sheet stuff, the unfunded obligations, Social Security, Medicare, pensions, those sort of things. \$75 trillion worth of things that are going to have to either be defaulted on or paid for. To the extent they pay for it, that's more money/more inflation.

They can print the money now, or they can borrow the money, kick the can down the road, and print it in the future. That's what they've been doing for decades. Maybe the future has arrived. To summarize where we are now, the current situation as a world, that given current levels of debt and of spending and of attitudes in government, the modern monetary theory, that sort of thing, there's no cost to spending, those sort of things would suggest that any decrease in inflation will be short-lived.

The investments that did best during the deflationary times from [19]82 until a couple years ago are highly unlikely to be the investments that you're going to want to hold going into the future. I've just described that we live in a world where investors figuratively face a lot of choices that amount to lemons. Fortunately, instead of leaving you with a sour taste, Alissa will discuss how you can turn these lemons into lemonade or, dare I say, champagne?

Alissa Corcoran: All right. Thanks, Dave. The lemons are, that we've had, artificially low price of money for a very long time, leading to a lot of malinvestment. We've had a very benign investment environment, really helped by these interest rates and low inflation, increased globalization. These trends are beginning to reverse. There's a lot of uncertainty out there, which we would argue means that you need very large margins of safety.

The sugar to make this lemonade is really that there are a lot of opportunities out there that will do well in a world without inflation, but will do even better with inflation. One has to look to regions outside the U.S. and sectors outside of tech. 2023 was such an interesting year for observers of the market because nothing happened as expected. If you think back to the banking crisis that feels like such a long time ago, everybody was worried about inflation.

Then, as Dave points out, you've had the last two months where speculation is back, risk is back on. It's hard to believe that we're in the middle of two wars, one in the Middle East, and oil is lower today than it was at the





start of the year. The Nasdaq is near its all time highs. Of course, the big driver of this is the Magnificent Seven that now has a \$11 trillion market cap, which is bigger than China, which is the second-largest economy in the world, and bigger than Japan, the third largest.

Apple and Microsoft combined have a larger weight than energy, real estate, utilities, and materials combined. These are very narrow and risky markets. You will not find us in these beloved stocks. You will find us where no one is looking. The emerging markets, contrary to many common beliefs, is that emerging markets are not a niche. They are 42% of GDP. They're three quarters of the global land, 90% of the population.

If you're not owning emerging markets, you're really limiting your opportunity set, and you're not taking advantage of a huge discount in the market today. The emerging markets relative to the U.S. equities are the lowest they've been in 50 years. The time when it was lower, you'll see that it was in the Go-Go [19]60s time where the U.S. markets were also extremely overvalued. That's really the subject of the letter that I just wrote called [The Nifty Seven](#).

If you want to learn more about the [19]60s and the [19]70s, it's remarkable how similar they are. Not just that you have this narrow market, but also the investor psychology, particularly around inflation. You can also see how well the emerging markets did in the 1970s. We may be mirroring the 1970s today. People feel safe and secure in these Magnificent Seven and their performance, but they're priced to perfection. We think that investors would do much better if they looked outside and invested in the emerging market counterparts.

We own Hyundai [Motor] and Alibaba. We don't own Samsung and Baidu, but nonetheless, everywhere you look, the counterparts are cheaper. The same is true in railroads and utilities. You could buy Union Pacific for 10 times book value, or you can go to Japan and China and buy very, very important big railroads for much, much cheaper on book. CGN [Power Co Ltd] in utilities; CGN is the largest Chinese nuclear power producer. They have clean, cheap carbon-free power, and yet they're trading at a price that is 40% less on replacement value, a third of the price of Constellation [Energy] on book value. Much better opportunities there.

In telecom, you can buy a high-quality company like Verizon, or you can go to Europe or South Korea or Kazakhstan and also buy high-quality telecom companies that have similar market share and similar technology, much cheaper prices. Taking a quick detour, the telecom companies, and the slide really is illustrative of our process. We first start our process by going through an industry template, in which case we identify Porter's Five Forces. We also ask ourselves, why does this company exist? What need does it serve? Clearly, telecom serves a lot of needs that people would rather give up. They would rather serve five days of jury duty than be separated from their smartphone for five days. People can't seem to live without their phones. Anyway, so why do they exist?

Assuming that it does, then we ask ourselves, how do we value a company within an industry? What drives their value? Is it book value? Is it some sort of earnings metric where book doesn't reflect the value of the asset? Those sorts of questions. While we come up with one main valuation metric, we are looking across all sorts of different metrics. Then we have to understand the reasons why they're not cheap on other metrics. Using this example, you could say, okay, I could buy Verizon for eight times earnings. Yet, when you look at the EV to subscriber, you're noticing that you're paying a lot more compared to other companies across the globe.

Using this framework, we have found other attractive opportunities in agriculture, particularly in Asia and Brazil. If you really want to get adventurous, you could go to Ukraine and pay much, much cheaper prices. Global population is growing, demand for food is growing, but high-quality topsoil is not. Food is not easily disrupted.





That's really the case for most of the stocks in our portfolio. We are owning telecom and utilities and food and railroads and infrastructure. While it's not exciting like AI [artificial intelligence] or Ozempic, this is a portfolio full of businesses that are not likely to be disintermediated.

All right. Moving on to unloved sectors. Real assets, according to this chart, compared to financial assets. We've never seen cheaper levels than we have in 100 years. There are a lot of extremely exciting opportunities for investors in real assets. Gold and precious metals are our favorite. Platinum is now \$900 an ounce, which compared to gold at north of \$2,000, that ratio is very stretched. We think that platinum will do very well. Palladium is down to \$920, which it started at \$3,000. We're excited. You'll see later on that we are buying more platinum and palladium companies in South Africa.

Meanwhile, gold is making record highs. While this might sound exciting, then you come to realize, you look further back on the chart, and you realize that gold is only up 10% since 2011, and it's lagging the monetary base big time. We think that gold has much more room to go, and people aren't really that excited about it. They're really not excited about the gold miners. Even with gold reaching all-time highs, the gold miners are still 50% to 75% lower than they were in 2011.

Relative to gold, they've traded one standard deviation away from the average for eight years. This is something that has really tested investors' patience. Many people have just given up. We see tremendous optionality in these mining companies. Even if gold doesn't go anywhere, we have upside. If gold does revert to a more normal level versus the monetary base, we wouldn't be surprised to see these big producers tripling and the companies that are sitting on their deposits, the ones with the more optionality, going up much more than that. The timing is unfortunately unknown. We've had to be very patient so far.

Speaking of patience, uranium went on a tear over the last couple of years. It did take eight years for the market to come around to our way of thinking. When it did, it's helpful to see that the high-optionality companies, the ones that we were talking about with gold, the ones that have these deposits that are not mining them, they went up 10 times. Meanwhile, the holding companies went up about the price of uranium, and the producers were somewhere in between there. Importantly, the time to buy uranium companies is not now. The time to buy was in 2020, of course. That was the low. The fundamentals were good well before then. We wrote a piece in 2017, and then a piece today called The Revenge of the Nerds. Really, the time to buy uranium was when producers were shutting down uranium production because the prices were so low.

It has been amazing to watch and fun to watch how public opinion has shifted so quickly. We went from moms against nuclear to having our first nuclear influencer, including this year's Miss America. True to our style, when you start seeing influencers, that's a good indication to start selling. We have eliminated Cameco. We've sold out of NextGen [Energy]. We've trimmed Fission [Uranium]. We use that volatility to sell to optimists. Then we bought from pessimists on Anglo American Platinum, a new company for us.

Other platinum companies, Impala [Platinum Holdings], which has been in our portfolio for a long time, we've added to that. We were trimming some gold mining companies that did very well and redeploying into others, like I just said, and K+S, a potash company. We've also been buying a lot of Chinese companies, as sentiment there is very negative. As usual, using the market to our advantage and putting together a portfolio that we're very proud of.

Our disciplined approach has resulted in a portfolio that is full of high-quality franchises that are very cheap on traditional metrics. They're very well positioned for a world with inflation, without inflation. With inflation, obviously, we do much better. The sectors and country weightings, you will not find another company, a





management firm out there, that looks like we do. We get that feedback a lot from our clients. We act as a very good diversifier for our clients.

To conclude, we've had a lot of reckless fiscal and monetary policies. This has gone on for a very long time. Ultimately, this doesn't come for free. The market's belief that a hangover is not going to happen anytime soon has created a lot of opportunities and a lot of potential for asymmetric returns. We think that because there's so much uncertainty, investors should position themselves and create an anti-fragile portfolio, one that does well with a change of guard, which we think is going to happen.

We just don't know the timing. Margins of safety are very important, and we're finding them in emerging markets and in real assets. With that, I will turn it back over. Thank you very much. We'll take your questions.

Mary Bracy: All right, thank you, Alissa and Dave. We have a lot of questions coming in. Again, if you have any questions, please type them into the Q&A box, and we will get to as many of them as we can. We're going to start where we started with the presentation, which is with money and debt, and in particular, the Fed. This question says, when I look at the Fed balance sheet asset growth on an annualized basis since 1998, its growth rate is 11.21%. This seems counterintuitive if their inflation target is 2%. Why do we allow the Federal Reserve to grow assets at this rate, and why are they not limited in their asset growth capacity?

Dave Iben: You're preaching to the choir. We have been probably pounding to death this concept of the Cantillon effect, but they've been printing at that clip. A couple of points. One, it goes into things that are close to the source. Until the last year and a half or whenever you had an unbelievable bull market in bonds, we're talking tens of trillions of dollars of increase in the value of bonds. I think that was probably going at a double-digit rate there.

We saw, until last year's correction, massive runs up in stocks, particularly the ones that people like the most, the Nasdaq-100 and that sort of thing. You had more than 10%. It was like 100% returns for a while in meme stocks and cryptocurrencies and houses in the metaverse and things like that. It was sort of crazy. That's the history of the world. You print money, it goes into financial assets, and it leaks into more speculative financial assets, and then it leaks into other things.

You've seen pretty good increases in health care and pretty good-- Although the government doesn't admit that. You've seen pretty big increases in tuition.

Commodities are interesting because they run up big, and then they fall big. Once they've fallen, they're still up pretty big. I think you are starting to see the Cantillon wave go downstream in fits and starts. The double-digit returns are probably already in the process of going from financial assets.

The Magnificent Seven are still doing well. For the last three or four years or two or three years, there hasn't been much increase in most markets in the world. You're seeing other things cool off and you are seeing the inflation go into the system. History suggests that during that bull market phase of the inflation, people are happy, not unhappy. They not only let the Fed do it, they encourage the Fed to do it. Almost all the media, for various reasons, supports the Fed doing this.

Now it's not going to stop. Times like the late 1970s, when it was a number of years of very painful inflation, people started to care. They have to really care before they'll let a Paul Volcker come in and do something about it because do something about it means nasty recession. That's not likely in the near term. Like I said, the one place we agree with everybody else is the next move, probably will, that they're going to ease. We'll see. They're certainly still pretty easy right now.





The whole point is, none of us can get the Fed to stop doing it. We can be upset about it, or we can buy the sort of things that Alissa was talking about and not only protect ourselves from that, but hopefully do much better than maintain our economic value.

Mary Bracy: That segues really well into our next question, which is about QE. Particularly, do we have thoughts on what factors might give rise to the next bout of QE? What does it look like? How close are we? Questions along those lines.

Dave Iben: We got a hint last spring. A couple banks that weren't major banks got into a little bit of trouble, and they printed, what was that, I can't remember, \$400 billion quickly. That was for a minor thing. I would suggest in a world where we're already seeing major delinquencies in credit cards, we're seeing huge office vacancies, you're seeing arrears in autos, you're seeing plunges in the price of-- and rates, the market thinks things have eased, but rates are-- they have not been lowered yet.

Something will break. We don't know what, we don't know when, but something will break. If it's a big enough thing that breaks, that's when the QE comes. That's my opinion. I don't know any better than the next guy, but seems logical.

Mary Bracy: Dave, isn't it true that over the long term, inflation is good for the stock market?

Dave Iben: There is nominal and there is real. Inflation is good for the nominal prices of stocks and real estate. It's good for the nominal prices of about everything, except for bonds. Then there's real returns too. In the 1970s, depending on your starting point, stocks did nothing during that inflation. From [19]72 to [19]82, they went down. This is like the last question. They printed a bunch of money, and the money went into stocks and everything else.

Stocks got really expensive in the late [19]60s. By [19]72, as Alissa talked about, it went into their equivalent of the Magnificent Seven, the Nifty 50. Then as the inflation leaked out of stocks and leaked into the cost of living, that was not good for stocks. I would suggest in real terms, stocks have done really well for a long time and may lag the price of gold and oil and farmland and other things that probably are better stores of value.

No, I suspect not. We do agree, owning stocks is way better than owning bonds, probably better than holding cash. The great thing about stocks is you do not have to own the S&P 500. You can own good businesses all around the world at prices that actually should do well, as Alissa said, with or without inflation.

Alissa Corcoran: It's also important to know which stocks. A lot of stocks in the stock market, and inflation is not good for these long-duration stocks. The expensive stocks we think could go down even in an inflationary environment like we saw in the 1970s, where there are a lot of opportunities to do very well. Low-priced stocks is always important, but it's even more important now.

Mary Bracy: Okay. We're going to shift gears a little bit and talk more about sort of our geopolitical/EM conversation. Before we get to EMs in particular, let's transition with a question about international government debt. We've talked a lot about U.S. government debt here, but the question is, given your extensive comments on the risks of high government deficit levels, why are we investing so much in Japan, the country that has the highest government debt?

Dave Iben: It goes with what Alissa just finished saying. We are not buying Japan. We are not buying JGBs and government bonds. We, for the most part, are buying companies that are in the businesses that are inflation-protected. We own oil companies, trading companies that own resources around the world. They just happen to be in Japan.





Then, another thing, we can all suspect that these various levels of debt around the world are going to hurt, and they probably will.

It took a long, long time to start hurting Japan. We would not suggest people put all their money in Japan, or in Korea, or in Italy, or Germany, or Canada. Certainly, shouldn't put all their money in the United States. It is best to diversify in lots of different countries because they're all going to deal with this inflationary problem in different ways, and then, as Alissa said, own the businesses that are likely to do well.

Mary Bracy: Moving to a similar question, but let's focus specifically on South Korea. We have, I think, now 19-ish% of our portfolio in South Korea. We're getting several questions about that. The first is, are Korean investments, does that provide an inflation protection?

Dave Iben: Just about 42 years, 19%. The only time we've had more than that in 42 years is the United States numerous times, Canada now, Japan once. It's a big exposure. There again, we are owning businesses that just happen to be there. We have conglomerates that sell stuff all around the world, probably inflation-protected. We've got car companies. They also sell all around the world, chemicals, different things.

Phone companies, not inflation-protected, but because they are oligopolies of things that people must have, they will be able to pass through as fast as the regulators will let them. Because of that problem, we demand a big margin of safety. They sell way below that big margin of safety. There again, for the most part, we don't have things that are big inflation losers, and we certainly don't own Korean bonds.

Mary Bracy: All right. That, again, segues really well. We're getting a lot of really on-topic questions that segue very well into each other today. We're shifting gears just a little bit into sovereign risk in general, geopolitical risk in general. The question is, a simple comparison of domestic and EM companies' valuations, like we've done in the presentation, doesn't seem to address the premium, or we would say probably the discount that an investor should then demand for risking capital, particularly in places like China or South Korea, where investor protections are less robust. How do we think about geopolitical risk broadly?

Alissa Corcoran: The most important thing with geopolitical risk, well, with any risk, it's what is risk. For us, risk is the possibility of losing purchasing power permanently. The best defense of that is to own a diversified portfolio and own very inexpensive stocks. Risk-adjusted, you want a large upside. That amount of risk-reward that we're finding in emerging markets is much higher than we are in the U.S. Geopolitical risk is part of that risk adjustment process.

Whenever we're investing in emerging markets, we're saying we want at least a 50% margin of safety. Then we want big upside to that. That's what we're finding. There are going to be areas where it doesn't work out. There's many companies where it doesn't work out. As part of a diversified portfolio, that's the most important thing.

Dave Iben: Yes, we love the question. I think so many people don't ask that question, is how much should we discount it? People go from loving emerging markets to hating emerging markets and loving again. They love tech, they hate tech, and love it again. Not discounting is the wrong thing to do. To not buy at any price is usually the wrong thing to do.

We like your question. Whether we're discounting Korea 40%, or other emerging markets 50%, or Argentina 80%, or things like that, those are not exact. We tend to discount them heavily and only buy when the stock has traded a huge discount to our discount because, yes, we don't have it precise. We wait until we believe that the crowds out there are grossly wrong. We think right now they're grossly wrong on how they're approaching EM versus developed markets.





Mary Bracy: We did initiate Alibaba during the quarter. We have a question specifically about whether that's going to be a part of a cluster of Chinese holdings or if that's more uniquely attractive.

Dave Iben: Depends partially on what the market does. If China keeps falling, don't be surprised if we don't take advantage of that. As we've mentioned many times, we are not buying China. We're buying really good companies that happen to be in China and discounting them 50% or 60%. People used to always show these charts of the FAANGs versus the BATs back when it was FAANGs instead of Magnificent Seven, however, but they would follow each other.

These were the superstars of the west versus the superstars of the east, and now there's been a colossal breakdown. We showed you some of those charts. These things are very cheap compared to their U.S. competitors, and they're arguably very cheap on an absolute sense. You get these platform companies that dominate their platforms at trading at single digit P/Es [price-to-earnings ratios]. They're complicated where it's taking us a long time to analyze these things, but, yes, we are analyzing them.

Mary Bracy: With this process that we have, is it fair to say that we will never own a stock if it is at some point valued on par with its equivalent U.S. counterpart?

Dave Iben: Never say never. I don't know if I can think of things right offhand, but to say the U.S. is better than Canada or Germany or Japan, we're probably better at some industries, and we're not better at other industries. I think there's different industries where we, yeah, but the U.S., we've tended to actually think is better at natural gas than a lot of countries. Maybe we would require a bigger discount elsewhere where a lot of-- Well, now we're even finding out about the other natural resources outside of hydrocarbons. Sometimes it's better to be elsewhere. It's certainly gotten very, very tough to run certain businesses in the U.S.

Alissa Corcoran: Important in that question though is really the price disconnect because if the price disconnect is as large as what we were showing, then yes, we will be owning the counterpart in other countries. If suddenly the U.S. got very, very cheap, we would be buying them too.

Dave Iben: Yes, we're hoping for the day when 30% of the portfolio is the U.S., although it'll be painful getting to that spot.

Mary Bracy: What about a couple of country-specific questions still. Any insights on Russia, Ukraine, or those stocks you'd like to add at this point?

Dave Iben: There again, we mentioned Astarta that's in the Ukraine. All the problems there and this company is nicely profitable, and they have mostly been for a lot of years. To own a little bit at that price, absolutely. Russia is complicated. We were able to buy a lot of good companies there in 2015, and then the market went up a lot the next five years, much more than the S&P. We were able to take profits in most of those companies, bought back in before the current problems two years ago.

It's amazing that it's been almost two years. Where do we sit now? We, fortunately, have good companies. They're the best of the best, and they're all making lots of money. They're becoming worth more every day. That's at least a good thing to know because the bad news is we can't really touch that money, and maybe we never will. If the U.S. is threatening to take a bunch of Russia's money now, Russia may come back and take a bunch of U.S. money. Hopefully, it doesn't go there.





In the meantime, we are waiting. The discounts we've been using, down 70%. People used to talk about, why aren't you down at 100[%] like others? We said, "Well, because it's certainly not worth zero." Now, it's been interesting to see things trading at 50% discounts, 40% discounts. This morning, I read Etalon was trading at 35% discounts. A lot of things are trading well above where we have them marked. We don't know the future.

We can just hope, mostly for the sake of the Ukrainian people, that cooler heads prevail. If and when that happens, we'll make a lot of money on these companies that are doing well, but maybe things won't work out. We're hopeful.

Mary Bracy: Exposure to Europe in general is quite low, Europe and the UK both. Is that a function of better opportunities elsewhere?

Alissa Corcoran: Yes.

Dave Iben: Yes. Europe is very interesting. There's a lot there. We were able to buy things last year in Germany and elsewhere. The UK has gotten pretty cheap. We've talked about Japan in the past, and Korea now, and starting to be China. Unbelievably cheap.

Mary Bracy: One more EM question, and that's about Argentina. Dave, are you able to apply Argentina's history to our current environment?

Dave Iben: Yes, with the old Mark Twain thing that history doesn't repeat, but it rhymes. Let's hope not. That letter, hopefully, it will get out soon. There are differences. We are in much better shape than Argentina. Argentina was surrounded by powerful neighbors and had a bunch of wars. The U.S. has never been attacked, other than Pearl Harbor, by another sovereign country. That's an advantage we have that they don't. We did have a nasty civil war, but they had a bunch of civil wars and conflicts and stuff. They've had a harder time.

Hopefully, we don't go the way of Argentina. However, yes, history and logic both say that if you have populist governments that promise everybody everything, and you destroy the treasury and borrow a lot of money, it doesn't work out well. It does in the short term. We've talked about how Argentina actually did pretty well for a decade or so after they started bleeding the treasury, but not so much since. It's been pointed out, Japan and China are no better off than we are, but I don't know if that should make us feel good. I think it's worse.

Europe is getting there too. The number of countries that have debt that's above one time's GDP is scary. The commentary I mentioned is on our website that's on [Money](#). We put it in the appendix to spare people, but it's fleshing out other people's comments about how debasing the money supply debases society, debases morals, the rule of law. Seeing various skirmishes pop up around the world and in our country is something that some people would have predicted.

I think for a lot of reasons, the U.S. won't go completely down that road, but the stock market and bond market are saying there will be no problems, only utopia from this policy. We suspect they're wrong. We suspect people ought to have a good portion of their portfolio invested elsewhere.

Mary Bracy: All right. We can move on now to some more sector-specific and then company-specific questions. We have a lot of questions on uranium and a lot of questions on gold. I think surprising no one. Before we get to those, let's talk just briefly. We have a couple of questions about our position in cash, particularly the fact that it's in cash and short-term treasuries. Do we ever consider locking in some of these higher interest rates with some bonds?





I know you've spoken a little bit about bonds, but if you could clarify that a bit more.

Dave Iben: I'll start. Cash as a reminder is residual to process. It's never a crystal ball, saying we think the market's going to drop because our crystal ball's never been good in the short term. It's all bottom-up. We buy a stock, the stock goes down, we buy more. As the stock goes up – our upside is less – we want to have a smaller position; we trim. Any time you have, like we've just had one of the best two-month periods in stock market history, people should suspect that we trimmed more than we added and the cash balances get high. Hopefully, the cash balances will get low when something corrects sooner or later, probably sooner. Point one.

Point two. The last 10 years of zero interest rates is something not seen in history. Now, if you can buy T-bills and get more than 5% for the cash, why would we not do that? 5%, no risk per se, we'll do that. Locking in these high rates, we're more agnostic about that. Short rates at over 5% or we can lock in 10-year rates at 4% or 30-year rates at 4%. Maybe people are right, then inflation's dead, but we just talked about a lot of reasons why they're probably not right.

Duration risk is what brought down those banks last spring. It's not safe. It is a bet that all these policies that are highly inflationary will not lead to inflation. We are not willing to put our money into long-term bonds. They make way more sense than they did the last half dozen years. Locking in 4% where-- We don't buy a stock, where we don't think we're going to make double-digit returns. We much prefer the stocks to the bonds right now.

Mary Bracy: You just mentioned last spring's banking crisis. We have a question specifically about sort of the impact of that and the residual potential issues that might have caused. Do you have any thoughts on what happens when the bank term funding facility that the Fed employed last March ends this spring? You just mentioned that, or the banks, so I thought I would bring that up now.

Dave Iben: When a lot of that money gets spent down, Fed, people are asking when does QE come? When they run out of the money they printed two years ago, three years ago.

Alissa Corcoran: I think big picture, it's just that we've had very cheap money for a very long time. There've been a lot of investments that have made with some utopian assumptions and that's going to eventually surface.

Dave Iben: Yes. People realize too, they printed all that money a few years ago, didn't spend it all. Why they've been tightening the last couple of years, they really have not been tightening, they've been releasing this money that was printed before. That's why when we have supposedly-- Well, we did have one of the biggest increases in rates ever, but all these various gauges that people print about how easy conditions are, they're easy out there. If people wonder whether they are in fact easy, take a look at the Magnificent Seven, take a look at the credit spreads out there for junk bonds that monetary conditions have not yet tightened.

Mary Bracy: Are we re-initiating put options? The VIX is back down at 12, so.

Dave Iben: Yes, we've got put options going out until April. It's sort of like we had before COVID where a lot of things led us to believe that maybe risk premium should be high and yet they were very low. We're not as low now as we were then, but 12 is a very low number considering a lot of the things we just talked about.





- Mary Bracy: Let's switch to uranium. We have several questions and they're similar, they're slightly different, but I'm going to try to sum them all up essentially as saying, do we envision any re-entry into these uranium names that we have eliminated, whether that's-- or new companies, what would bring that sort of re-entry?
- Alissa Corcoran: Price. No. We saw in 2021, after that bounce, uranium companies came down pretty significantly. We did re-enter. We sold some names. We sold Denison, for example, and then we bought it back and now sold. Absolutely, but we're always looking for the best risk-return. Right now we're finding that elsewhere, but if uranium prices come down, we would certainly look again.
- Dave Iben: To add to that, I don't know if Alissa did mention in her presentation, but a case can be made that uranium's worth somewhere between \$90 and \$130. When uranium was really cheap, these smaller companies basically began giving away. We thought we had massive upsides, so some of them are up 10x from where they were. Some of them now, the companies that Alissa mentioned that we've exited, according to our models, they're pricing in \$130 uranium already. They are fairly valued at \$130, where the ones we have not sold yet will make us money if uranium goes to \$130.
- Mary Bracy: All right. Sticking with energy before we shift over to materials, we have a couple of questions on the merger of Southwestern with Chesapeake and our thoughts on that merger.
- Alissa Corcoran: We're still doing the analysis on it. At this point, it looks like the upside is not as good as Southwestern on its own, but there could still be some upside and we would be getting shares in that company where management has taken advantage of these low prices, which the same thing happened with Newcrest and Newmont. Time will tell, but that's our initial thoughts.
- Dave Iben: We talked the many reasons we put big margins of safety on a lot of companies and it's good news and yet at the same time, mostly bad news that somebody buys us out at a premium, but we think it's now less interesting. Newmont buys Newcrest, we made money, but less than we thought it was worth. Then Sabina gets bought out for less than we think it was worth and EDF in France gets bought out. In all these cases we made money, but a lot less than we thought the models are worth. That's the bad news. That's why we have a premium. The good news is that we at least redeploy the funds into the things that we think are cheaper.
- Mary Bracy: That gets again to, you guys are-- I think you're actually reading over my shoulder today because I'm seeing you're answering questions and that they're leading really well into the next question. This is a question that's actually a follow-up, Dave, on a visit that you made to a Raymond James branch in Chicago last year where you commented that you thought Newmont was underpaying for Newcrest. What is your take now on Newmont sort of selling in the mid-30s?
- Dave Iben: At the time we thought Newmont was worth twice where it was selling at and Newcrest is worth four times. These are two high-risk adjusted prices. After that, Newmont, because of the benefit of buying company too cheap was maybe worth three times. As the Newmont stock gets cheaper, the upside is even better. The cheaper Newmont gets, the more we like. We should also point out as we have in the past that sometimes people make a mistake getting too focused on cash flow this quarter as opposed to the future.
- If you have oil or uranium or gold in the ground and it disappears, you've lost money. If you decide to pull it out of the ground next year instead of this year, it's arguably not worth less. Maybe it's worth a little less if you use a DCF but maybe you shouldn't use a DCF because these things store value and they're undervalued to begin with. When Newmont announced that they slowed production down at a mine that Newcrest had they hit the stock.





In the past, we've done very well with that. Things like Turquoise Hill with a stock fall from \$20 to \$3 or \$4 or something because they pushed their production, although they also spent a billion, but it fell by a lot more than that. It fell by many billions over a billion dollar increase in CapEx because it was pushed out into the future but it turned out to be good for some of the future because the price of copper and gold went up. Maybe more than you wanted on that one.

Mary Bracy: I think that probably addresses a lot of these questions around our thought process of questions we're getting on gold. We have a lot more, so we're going to keep going for a little bit. We have a question about ITH, International Tower Hill, and our sort of current opinion on that. Specifically, is it still leveraged like it once was to a rising gold market?

Alissa Corcoran: Leverage to a rising gold market? Absolutely. Leverage itself? No. It has a very good balance sheet outside of the fact that it's not producing and it has to go to market and raise money to just exist. However, the good news is that we have very good partners in that stock and they've kept the spending very low. Extreme optionality. We're buying a company with long-life reserves and it should do very well with a rising gold price.

Mary Bracy: Great. Continuing on with our company-specific questions. Northern Dynasty, we recently participated in a private placement for that and it was-- Any comments on that and then also the recent Supreme Court ruling?

Alissa Corcoran: Yes, this is such a difficult stock. The upside is tremendous. This is a company that owns one of the largest copper-gold mines in the world - deposits I should say. The hard part is that unlike ITH, Northern Dynasty spends a lot of money, and this recent Supreme Court decision is unfortunate because it means that they have to go through the longer period of trials and courts, and so that means even more money.

We wish that they would just go along and ride on the Alaska states' coattails, but they decided not to. That is unfortunate. We did participate. Then, surely, right after that, they announced this news. We still see an amazing opportunity here. It's just that this is some unfortunate news. Still, our long-term thesis on the project remains. This is the company with the largest amount of upside in our mining universe.

Dave Iben: People should understand that the plan was always that they would have to go through the federal courts, but Alaska thought there was a chance that maybe they could bypass that system. That failed, but people should not construe this to mean this was really bad news. It's not going to happen now. That just means they're going to go through the process that they are always going to have to go through. That will be an interesting case because it's a matter of the EPA overstepping its bounds and the administration trying to infringe on state properties and state rights. It'll be an important case.

Mary Bracy: Question on our junior miners and our view on the producing versus not producing miners, particularly Seabridge?

Alissa Corcoran: Seabridge is, like ITH, like Northern Dynasty, these are companies that have massive amounts of gold underground. They all require a lot of CapEx and higher gold prices. Put through a DCF model and you say, Okay. They're not going to start production. They're not going to even start building for five years. Then they're going to have to spend billions before they even get to production. That doesn't look very good. We prefer an optionality model, and we've shown in other presentations the wide difference in output that you get if you use an optionality model versus a DCF.





Why not a DCF? If time is your enemy with a DCF, time is your friend in an optionality model and when you're owning a mining company would you rather own a company that has five years of production and pulls it out of the ground much faster or something that's going to last for 50 years and you get to experience those rising prices with commodities that are inflation-protected like gold is.

I once talked to a mining executive who said that you make 80% of your money 20% of the time in mining. You want to be exposed to those. Those companies that are not producing yet, those are the ones with the highest optionality to a rising gold price. We saw that play out with the uranium mining companies as well. That's why we like them. We think there are some management teams that are better than others, some that are much better with their share count than others. Seabridge is one where the management team has done a very good job of keeping ounces and resources per share at a very low, a stable rate.

Dave Iben: People talk about what we talk about – Cantillon – what goes up in price and what doesn't. Gold has a long history of keeping its value. It has done a better job than a lot of other commodities that's going up in price. If they keep printing money, or even just the existing money goes through, things that are scarce should do well. In the past, we've probably showed you charts of how much gold has been found per decade.

People are not finding gold anymore, so we focused on the companies that own lots of gold because that's a very scarce asset and copper might be on that same ballpark if they're actually going to, say, be one-third EVs in the future, there's just not enough copper. That's what we own. We own big reserves of copper and gold and that's where Seabridge fits in and Northern Dynasty fits in. The guys that are out exploring for the stuff, they have a hard job.

Mary Bracy: Speaking of companies that are exposed but maybe not out looking for, exploring for gold, the streamers, the gold and silver streamers. What are our thoughts on those?

Alissa Corcoran: We like them. We own them. They are less risky than a mining company and therefore we have a smaller margin of safety. Whereas some of the mining companies, we have 80% margin of safety. These guys are much smaller than that. They're diversified. They have exposure to this rising gold price but they don't have the operational leverage that a mining company would.

We view them more as like financial companies and they're making loans to these mining companies. Instead of getting paid back in cash, they're getting paid back in gold. Yes, it's a great business. There's more competition. The big guys are able to really deploy a lot of big checks when companies get in trouble like the copper mining companies got in trouble many years back and the streaming companies were able to come with hundreds of millions of dollars and get access to the gold or the by-products that the copper companies were willing to sell.

There is more competition on the smaller end with these private equity companies, but they're all going after the same thing, which is these cash-flowing assets. There's a lot of opportunities for companies that are going after streams where the cash flows are not today, they're not tomorrow, they're a few years out.

Mary Bracy: All right. One more question on gold, and then we're going to move to other precious metals. Do you think that the new Bitcoin ETFs have reduced interest in the gold miners? It might be hard to measure, but I'm going to read this whole question, I love it so much. It seems like the miners are stuck in the mud. Are they stuck in the mud and being stuck there by the new Bitcoin ETFs?





Dave Iben: The short term, there does seem to be people switching between the two. What we constantly point out to people, we don't think the battle is between Bitcoin and gold. We think it's between fiat currencies and stores of value. If people have 1% of their money in crypto, 1% of their money in gold, and 98% of their money in basically currency-denominated assets, theoretically Bitcoin, gold, copper, farmland, good-quality franchises, and all these things are all the winner. Bonds are the loser.

Mary Bracy: All right. We have several questions on platinum and palladium. Two questions just on our general thesis on those two metals. Then a specific question on Impala, particularly how inexpensive it is compared to the past based on its earnings and growing its assets and things like that.

Alissa Corcoran: We like all the precious metals. Palladium, we didn't like when it was at \$3000, especially when you looked at palladium at \$3000 and platinum at \$900. That is a disconnect that would cost us. They are substitutes for each other, so that disconnect would drive people to substitute. Palladium is much more exposed to ICE [Internal Combustion Engine] cars, and therefore, with this idea that we're moving entirely to electric vehicles, Palladium has not done well. Then there was the thesis that, well, there was so much palladium that was put into China's auto market that suddenly as those cars become obsolete. Those turnover. Then you're going to have all this palladium supply.

It seems that the EV story is starting to change a bit. I think demand is not what people are expecting. I think, ICE cars are going to be here for a while, which means that the demand for palladium and platinum is still strong, but even if you didn't include the industrial demand, they have monetary characteristics just like gold. That they are homogenous, they're shiny, they're portable, and importantly, they're scarce.

These are assets that you can't replicate. You can't print them. They're unhackable, and they are stores of value just like gold. If you look at platinum and palladium versus gold, there's a lot of upside, especially when you consider the upside that we see in gold. Would you add to that?

Dave Iben: Yes. No, they both have sold at premiums to gold in the past. Pretty good premiums. If you get on the internet and you try to buy platinum and palladium coins, if you can find them at all, they're 10% plus premiums. I think if people start to produce more of them, there'll be more monetary demand than there ever was in the past. They're too hard to work with to have been money through the centuries, but now people can and are doing coins. You get eagles, maples, and all the things in platinum too. In addition to the internal combustion engine not going away quickly, I think you could start seeing monetary demand as well.

Mary Bracy: All right. We have two more questions. First is on copper and industrial metals. What's your view on those?

Alissa Corcoran: We like copper. I know we like gold better, but it is interesting that we have several copper companies. There are times when the gold mining companies are doing well and the copper mining companies are not, so we rotate and redeploy, trimming some, redeploying into others. For the same reasons that we like gold mining companies with these big assets, copper companies with big assets are the ones that we're attracted to. We're finding more optionality and more value in these companies that have copper outside of developed markets.

That seems to be everybody's thing. They say, "Okay, well, we don't like owning mining companies, but if we do, we want to own the producers, and we want to own them in safe jurisdictions." The companies that are-- Neither of those things are the cheapest, but with copper, the producers that are in places like the DRC [Democratic Republic of the Congo], Panama, and other places in Latin America, those are more interesting than something like Freeport.





Dave Iben: It is interesting. The EVs obviously aren't going to go to 100% of the market. Even if they go to 30% of the market, though there will, no one can find enough copper and nickel to even do that. The potential is very good. We might mention before, every year we go to this conference in February with all these mining companies from all around the world. They pull all the investors and keep in mind that people were fairly bullish on a lot of things last year, but people were asked, what metal is the best? 90 some-odd percent said copper.

That was something to worry about. I think maybe lithium was second. Lithium's down big since then. Copper briefly out of fall, but every time it dips in price, we try to take advantage of that. Lithium's another thing that we're trying to—well, we spent the last years getting a handle on it because it's down 70% from the peak but still up big from three, four years ago.

Alissa Corcoran: Also, importantly is a lot of these commodities are below their incentive price, and we haven't seen that much copper come on. We haven't seen much nickel come on. These mines take a very long time to get up and running, let alone just permit them and find it and all of that. It's not as if prices go up and you can just turn on the supply spigot. The prices tend to go way above the incentive price for a long time. Then they bring on way too much supply, and then the prices go way below the incentive price for a long time. We're recovering from a long hangover in the commodities space.

Mary Bracy: All right. We're going to finish off with this question, which I had saved for last because I think it is just the best—allows us to just summarize our process so well. I am going to expand on the question a little bit. The question is basically, what is your current view on your allocation relative to your historical average? How you get to these allocations? You mentioned South Korea is higher than other country allocations. We've been at 25% metals and mining for very long time now. How do we get to those allocations? What's our bottom-up process like? How do we make these decisions when we're constructing the portfolio?

Dave Iben: It is all bottom-up. Historically, we used to own a lot of railroads in the U.S. because they underperformed for a long time and then they ran up. Then, after Fukushima, we noticed railroads in Japan were way cheaper. We reallocated Japan, and then, with COVID, railroads became way cheaper in Hong Kong, so we reallocated there. Phone companies in various parts of the world and continue to, but you saw the chart in the presentation. Korea's amongst the cheapest in the world. We think they're really not an emerging market either. It's, why not go there?

If you look at chemical companies around the world, now they need to be cheaper in Korea. They're even adjusting for that a lot. They're very, very cheap. Auto market, Hyundai's probably over the last quarter century done as well as any auto company, but they're not priced that way. We gravitate there. In auto parts, it's amazing, tire companies and lock companies, you name it, when you can buy things at 4 or 5 times earnings there versus 15 elsewhere, we end up there, but it's just company by company.

That's what got us 12 years ago to 25% in Japan. That's what's got us to where we are in Korea right now because... Canada's so good in resources. They have the best deals on uranium companies, plus the one in Kazakhstan. The best gold companies and some of the best energy companies. That's why Canada's become such a big part of the portfolio, but every case is just look around, understand the industry, say what are we looking for in attributes, which companies have these. Those are what we want to be long-term owners of. How do we want to value that? Then we value it. How much for a margin of safety do we want? We put that on. Then how much for a bigger margin of safety do we want for this country or that country? We put that on. Then we look where we're getting the best deals relative to that price.





That tends to mean that we own countries that the markets don't like. Why they don't like Korea, I'm not quite sure. Why resources are cheaper in Canada and other places, I'm not quite sure. Japan's bounced a lot, but still, we figure things like Mitsui have been so much cheaper than other comparable companies around the globe. That's the process. Companies we want to own at discounted values that are way cheaper than what we're looking for.

Mary Bracy: All right. Well, that does it for our questions. Dave, Alissa, do either of you have any final thoughts before we sign off?

Dave Iben: No, nothing in particular. It should be, yet again, an exciting quarter. We appreciate everybody's support and feel very good about how things are positioned right now, so thank you all.

Alissa Corcoran: Thank you.

Mary Bracy: Thank you very much.

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

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