Kopernik Global Investors, LLC

Edited Transcript of the 1st Quarter 2015
Conference Call with David Iben

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Operator: Good afternoon ladies and gentlemen and thank you for joining us for the Kopernik Global Investors Quarterly Call. On today's call we have David Iben, Founder, Chief Investment Officer and Lead Portfolio Manager to discuss Kopernik's views on the current market environment and portfolio positioning of its Global All-Cap strategy. Please note this call is being recorded and the topics on this call are for informational purposes only and should not be regarded as a recommendation or an offer to buy or sell any product or service to which this information may relate.

Certain products or services may not be available to all entities or persons. Please consider all risks carefully before investing. All participants will initially be in a listen-only mode. Following Mr. Iben's discussion there will be an opportunity to ask questions. To ask a phone question, please press star one on your telephone. At this time I'd like to turn the conference over to Kassim Gaffar, Principal at Kopernik.

Kassim Gaffar: Thank you everyone for joining this call and for the continued support. Before I pass it over to Dave for the investment and market update and for the bulk of the call, I wanted to do a quick firm update. Overall, on the firm level, at the close of last quarter, we're currently at $1.49 billion AUM. If you compare this to end of last year, we were roughly at $1.14 billion. So from $1.14 billion we are up, right now close to $1.5 billion AUM so obviously things have continued to progress really well.

During the first quarter of this year, in addition to the retail side (so in addition to the retail fund) we've seen healthy consistent flows in our institutionally managed separate account business so we have seen a lot of uptick on the institutional side of the firm.

If you look across all channels, we have been big beneficiaries as many of our current clients have been looking to diversify their current investments and have been adding us to the mix. Many other investment managers who in many cases have had very similar portfolios where they're all positioned in the so called popular trade have been bullish on the US after a strong rally. But clearly given our portfolio positioning we have been a very good diversifier for many of our clients' portfolios.

On another matter just in terms of housekeeping - on our firm website kopernikglobal.com we just finished up two pieces called the Kopernik Perspective and one piece is on gold (Kopernik Perspective: Gold) and one piece is on Russia (Kopernik Perspective: Russia – It's not me, it's you). I think they're both a very good read so please have a look on our website or please reach out if you have any questions about that.

Before I pass over to Dave, just one last thing for the call today. Dave will be speaking to and referring to a presentation which was sent to you in the invite and also that link can also be found on our website. So with that I'll pass it to Dave for the call. Thank you.

David Iben: Good afternoon everybody and thank you for joining us. In these markets it's always timely to talk about what's going on and now is no different.

We sent out links to a presentation so we'll be going through some of the slides. We'll skip over some, but they'll all be available on our website afterwards. Some of them might be helpful in terms of philosophy, process, and people. I think most of you know that, so that'll be available on that website so let's just skip to page 6.

I always like to start with comics. They say it better than I can. QE has been divisive. There are many that think that QE has led us to nirvana. There's others that think it's led us to the brink of Armageddon. We think there's a little bit of truth to both those views and within that is opportunity.

If we skip to page 8, as we like to do - start with the challenges. We'll start with the bad news. The bad news that we're all aware of for all of us and for our clients, for people that have accumulated capital and savings and trust over time - it is certainly bad news that the central banks of the world have decided that we shouldn't earn a return on that. It's interesting times when the return on bonds is next to nothing and even more interesting as I'm sure you've all read that there are trillions of dollars in the market that are trading below zero now - so worse than nothing.

People are having to pay money for the right to loan money to semi-solvent nations around the world. That we think presents a problem. It's very well-known that playing with interest rates causes mal-investment. With that in mind, there has been a lot of asset rising - some people are calling it – bubbles. Certainly the bond market looks like a bubble, but others think certain sectors within the market, for the first time in 15 years, would be winning days of the technology bubble. We also use comic strips like this (p. 9), but it is interesting that once again fundamentals are not required to have high asset prices and money losing stocks are some of the best performing now. They were certainly some of the best performing in 1999.

Outside of that there's certainly been big runs in real estate and art and collectibles and a lot of other things. Stocks are a mixed bag. We're finding a lot of pockets out there, however the US market in particular is right up there with the '29, '99, '07 sort of valuations that have led to the problems. (Hopefully people can't hear, but here in Tampa, the thunderstorm - Mother Nature's given her opinion on valuations. Hopefully that won't bother people too much.)

At any rate, stock market prices have gotten to be a bit of a concern in the U.S. It's been bifurcated, not only within sectors, but across the world. So this chart on page 10, shows what I think we all know, that last year if you didn't own the U.S., you probably didn't do well. You can see the world, as a whole, lost money. EAFE did really poorly. Emerging markets did really poorly. Pretty much just like 1999, when you either owned tech or you looked like a fool. Last year, you owned the U.S. or you looked like a fool.

'99's aftermath created opportunity in other sectors. We believe that will be the case here. Now the U.S. market is expensive on a lot of measures but not horrible on PE. It's extended. Here it all comes down to margins. The U.S. market clearly has benefited from record margins. That's a good thing, however logic and theory would suggest that these margins will not be sustainable in a zero interest rate environment. So another thing for us all to worry about.

Why has the US market done that well? Because the economy's booming and earnings are coming through wonderfully or not. Mostly have been dollar related. The dollar's had a big move as opposed to stocks in particular. That I guess, is good news. It makes our wealth worth more, however a strong dollar, not that long ago, people thought was something to be feared. Now we have to wonder 1) whether it will hurt the economy and 2) whether it'll be sustained. Time will tell.

And theory doesn't always hold in practice. So, QE was supposed to make the dollar weaker. Everybody was sure QE was going to make the dollar weaker. Everybody hated the dollar four years ago and it made it stronger. The strong dollar was supposed to be really bad news for the markets and the economy. Thus far it has not been bad news. QE was supposed to increase asset levels. It has done that, but the asset levels were in turn supposed to create a wealth effect that was going to create jobs and make people - make the economy better. Thus far, it has failed to do that.

So a lot of challenges but let's now turn to the better stuff - the opportunities that all this mal-investment has created. Investors, I think every year, get a shorter attention span. Now everybody's obsessed with every murmur from a fed official on what money supply might be or every short term bit of data from government bureaucrats on what jobs may or may not have done in the last month. And they are pouring in and out of sectors - in and out of ETF's. They're playing the market like a casino as opposed to investing in companies. That, we think, creates opportunity.

Our last commentary was entitled the Twilight Zone. Most of you have probably seen it. For those of you that haven't, it's also on our website. But we talked about how fundamentals and stock prices have become divorced and some of the things with the best fundamentals actually had the worst stock price performance, once again like 1999, and how some of the more challenging fundamentals were being rewarded.

Interesting enough, some of the things that were most out of favor and most divorced from fundamentals are off to a good start this year. We'll see if it lasts. Not long ago some of the most hated things on earth were Chinese stocks, Russian stocks and gold miners and thus far they're some of the winners this early year. We'll see if that lasts but at least they've started.

What has not started to move with the fundamentals yet are a few other things and one of our favorites being uranium. We like the fundamentals of uranium. We thought it was more constructive than most other energy sources and sure enough when energy prices had a really bad year, uranium prices did not have a bad year. They had a good year.

This chart (p.15) shows that over this period of time uranium prices went up by 19%. We own this one position - Uranium Participation - that just holds uranium. A reasonable expectation would have been for that name to go up 19% and it went down. Also, one of the major uranium miners, would be a leverage play on those increasing prices. You would think that would have gone up by a lot more than 19%. It went down by 23%. So there continues to be a little bit of Twilight Zone in the markets and that hopefully bodes well and leads to gains just like it has in some of the other sectors we mentioned.

The uranium price - it's nice. It's up. Will it last? Fundamentals would suggest so. A lot of years of supply being insufficient was being made up from other sources. There's been the misconception that Fukushima was the end of nuclear power. We've got a chart here showing that now there might be 50 plants shutting down, but that'll be offset by 142 coming on stream. Demand's going to increase. Supply needs to increase. It can't continue to come from secondary sources - in particular a program that ended a year and a half ago - turning Russian bombs into fuel. That is potentially one of the more interesting areas.

Similarly, coal has less attractive fundamentals than uranium, that's for sure, but it also has in its own right some very good fundamentals. There again, you get the idea that coal has become obsolete. Certainly all of us like to see what's happening with solar power and wind and clean energies and we're hoping and expecting that that continues, but coal has not gone away. It continues to be far and away the biggest source of electricity production. It's gone up almost every year in my lifetime and is now falling off a little bit and will probably continue to fall off a little bit. It is not going away, and if it's not going away, how interesting - in this chart - to show that - we mentioned uranium go up. Coal prices - you can see the top two lines (p.19) have not gone down very much, even as gas went down a lot and oil went down a tremendous amount. The bottom chart shows that while oil and gas were going down, a lot of oil and gas stocks didn't go down very much while coal prices held pretty much. Coal stocks just got beat up in the market and now trade below a dollar per ton. Mismatches like that are the things that excite us as active investors.

Another form of power - hydroelectric power. It used to be loved because it's cheap, it's clean, it's got a competitive advantage, and it's got no greenhouse effect. For those of you that have been with us for a number of years, probably remember when Idaho Power was a big holding for us. It was trading at around book value which seemed too cheap for a monopoly with a huge competitive advantage. At the time the Brazilian hydroelectric power was trading at about half of that. That seemed fair. There's a reason to prefer the U.S. to emerging markets. Since then Idaho power went from 1x book to almost 2x book, whereas the Brazilian utility went from 1/2 of book to about 15% of book value. The company's bigger now. It's got challenges. It's got problems. But 15% of book value and less than 15% of replacement value, for cheap clean electricity. That we expect is going to turn out to be interesting in the future.

Elsewhere we have mentioned that Russia may be bouncing back for now. We'll see if that lasts. What really hasn't bounced much is Brazil. We have added that to the chart that many of you have seen from us in the past. And, you know, once again I got this idea back in the late 90's from a gentlemen who was comparing Intel to India with Intel being worth more than the entire country of India. At the time that seemed reasonable to most people. Now in hindsight how could that have ever been?

Apple's a wonderful company. We like them and we wish them well. Three quarters of a trillion dollars is a big market cap that will take a lot of right decisions for a lot of years to support that. We believe, and hopefully they do. But what we find most interesting is that Brazil and Russia are both top ten economies in the world and they're both some of the biggest in land mass and biggest in terms of resources they have and certainly will be growth economies. Over the coming decades, they shouldn't sell for less than one particular company no matter how good it is. It reminds us of Newton watching gravity affect an apple. Will that happen again in a different sense? Time will tell but certainly Brazil and Russia are not beloved members of the BRIC's like they were four years ago.

As far as the U.S. dollar, it's bounced now, but that's within a huge secular decline (p.22). Which one's real - the recent bounce or the long term trend? We think that all comes down to money printing. Ever since the Federal Reserve was created and certainly since it came off the gold standard in 1971, money has been printed and the purchasing power of the dollar has dropped. It's dropped against most everything. They've temporarily stopped printing and they're going to do the printing in Japan, in Europe and elsewhere. But over time we would suspect that it's good to own some things outside of the dollar.

Gold - we've mentioned it's starting to bounce but it's so, so depressed and so cheap, it's got a long, long way to go. That isn't saying, alright, the price of gold has gone up but let's adjust for that by how much money's been printed. You can see (p.24) the price of gold relative to the theoretical price of gold - the fully backed dollar price of gold has never been cheaper. We continue to like that a lot.

So, where are we now? There's places and things that are pretty cheap. There's still a lot of belief all around the world that we should take turns handing out the baton on who can print money. Printing money has effects. It's usually not the effect that's intended. We think that's a mismatch when something that's served as money for thousands and thousands of years in aggregate could be worth less than some stocks.

More importantly whereas the U.S. market is a bit challenging, it's interesting that the once beloved growth markets of the world - the emerging markets - have grown. They have become a lot bigger than the advanced countries and yet they're not priced like it. As you can see on the chart at the bottom of this page, P/E's, price to books, price to cash flows – based on a lot of things the BRIC's look interesting. Korea looks interesting. Hong Kong, which is having a big move now, but that was off of a little base. The market is allowing us to look selectively at individual businesses that just happened to be too cheap and if they're in some of these emerging markets, they probably are too cheap. Another way to look at it, is to look at the market cap relative to GDP's. The U.S. is the biggest country in the world, it deserves to have the biggest market cap of the world. If it were 22% of the All Country World Index (MSCI ACWI), I don't think we would be arguing with anybody about whether that was fair. 52% of the All Country World Index (MSCI ACWI) in any one country - I think people will in the future look back at that and shake their heads. Less important on whether that proves to be okay. You'll notice big countries with big impacts on the world have 0% to 1% of the All Country World representation - India, Russia, Italy, Brazil. You know, these have almost no representation in the All Country World Index and actually they are real countries with real economies with real resources. Once again, we believe that in the rush to pay out for expensive stocks, there's a lot of great businesses around the world that are way too cheap and the market might be in the process of starting to recognize that. Time will tell, but certainly we feel good about it.

And I'd like to spend most of the time on questions and answers so thank you.

Operator: If you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again press star one to ask a question and we'll pause for just a moment to allow everyone an opportunity to signal.

We'll take our first question from Richard Cheever with North Berkeley Investment Partners.

Richard Cheever: Hi, thanks for your time. Just kind of an overarching or a broad question I guess. How do you go about differentiating between your companies or industries that are cyclically out of favor as opposed to companies or industries that are in some sort of structural decline?

David Iben: Well first of all, from the bottom up, we look at businesses and we look at the industries they're in and we try to figure out supply and demand. Into our models, we input whether they seem to be growing or seem to be in decline and then we try to obviously pay up more for the ones that are growing and we're going to give a much lower theoretical value for ones that are shrinking. Like everybody, we prefer growth. Unlike others if we can buy a mature company or a shrinking company at way less than what it's worth, we're happy to do that.

It is interesting where in the stock market people seem to want to pay a fortune for growth and pay nothing for no growth. They're willing to pay a fortune for bonds with fixed coupons that clearly are not growth so that's an aberration. Our analysts look at each industry and we put a lot of time on what can be sustainable demand and usually it's right along the GDP and just above population growth. Some industries can sustain more than that for a while, but easily, not a lot. And then we look at supply. Is supply unlimited? We're going to have less confidence in the ability of that business to do well if supply can come pouring in. If demand is sustainable and supply is scarce, we're more likely to assume that our models will come true or even do better than we expect. We calculate the theoretical value including whatever growth rate seems appropriate and whatever margin seems appropriate under different scenarios. Then we calculate our margin of safety.

Not to go too long into this and bore people, but margin of safety is important. A lot of value oriented investors insist upon it. We look for bigger margins of safety for companies where things are more in doubt. A company that's in secular decline might have more margin problems. We might want a bigger margin of safety for companies in secular decline. A management team that we're less sure they know how to allocate capital correctly, we want a bigger margin of safety.

A company that's in Russia or China - we want a bigger margin of safety and so on. All of this is done bottom up, calculating the valuation and then throwing our knowledge of all these things in to try and get bigger margins of safety for companies with more challenging or uncertain outlooks.

Richard Cheever: Alright, appreciate it. I'll get back in queue.

Operator: Once again it's star one if you'd like to ask a question today - star one. We'll go next to Philip Schlakman with PSQ Capital.

Philip Schlakman: Thank you. David, just our observation in your portfolio is that it looks like it will set up really well if and when we ever get a reflationary type environment, you know, something similar even to what has gone on in the market in the last couple of weeks. Do you foresee any catalysts or events that ultimately will swing the global mindshare over to that type of market from where we are - have been for the last couple of years which seems to be more worried about the downside risk to inflation and the excess capacity that's out there?

David Iben: We try to do things bottom up and we feel that with or without inflation we really like our portfolio. I will point out that most of our big holdings are companies that are in dominant markets - companies and businesses that meet the needs of the growing middle class around the world whether it's electricity or gasoline or protein foods or cellphone services or transportation. These are the companies we own. We think they'll do fine with or without inflation. We also think the biggest predictor of future performance and the biggest predictor of lack of risk or, you know, lower risk is valuation. On this portfolio of dominant companies and what we think are good markets, the price/earnings in our portfolio is about a - about a third less than on the All Country World Index. The price to cash flow is 2/3 less. The price to book is 3/4 less. Our price to book is less than 0.6x.

So really it's a portfolio of companies that should grow and should do fine and, you know, they didn't grow. The stock should rerate forward. However to your point where we don't view ourselves as macro, there is absolutely no question that the marketplace in aggregate is macro. There are lots of people who get opinions on something and they pour their money into it and if people like big stocks, it pours into the big stock ETF and if they like the U.S., it pours into the U.S. ETF's.

Four years ago people were saying my God, inflation's going to be a big thing with "let's buy the gold ETF's" and "let's buy the infrastructure ETF's" and "let's buy the emerging market ETF's" and, you know, "let's buy the agriculture ETF." Because so many people were playing that, those stocks became more expensive than they otherwise would and maybe those things needed to come through. They didn't come through at the same rate people expected. Now these stocks - it's sort of the best of all worlds in our opinion because people have sold all of these themes because people don't believe inflation is possible and because they don't like emerging markets anymore and they don't like agriculture anymore and they sure don't like gold anymore.

These things are priced so cheaply that we believe that we'll probably do really well even if there's no hint of inflation, and to your point, of if the market starts receiving inflation then there's tremendous upside to this portfolio because there is a lot of things that are likely to do well. Inflation itself is an interesting concept because most of the world seems to think that we're in this deflation, and the inflation's impossible, where we think inflation is a monetary phenomenon.

We think the money supply in the U.S. has gone from $0.8 trillion to $4.5 trillion and the money supply is growing quickly in Japan and it's growing quickly in Europe and it is growing phenomenally fast in Switzerland and it's growing in the UK and It's growing like crazy in China. People that don't see inflation are looking in different places than we are.

Now what have the symptoms of that inflation been? The symptoms have not been in the CPI. The symptoms have been in record high prices for U.S. bonds and record high prices for European bonds and record high prices for U.S. stocks and record high prices for art and record high prices for collectibles and soaring prices for drugs and healthcare and record high prices for education.

But the last three or four years, it has not been going down. The price of food has not been going down. The price of gold and those sorts of things - once again if it rolls back into those things, that'll be wonderful. If it doesn't, we believe buying companies at fractions of book and single digit P/E's will be fine without inflation.

Operator: We'll take our next question from Haydn Cole with Essex Asset Management.

Haydn Cole: Hi. Thanks for taking my question, David. I was very interested in the comment that you made about the MSCI World Index and the weightings of particular emerging market economies and I wondered have you sort of forecasted those are going to increase in value in market cap - if you have a timeframe in mind where you think that their weightings will be more accurately reflected in the MSCI World Index.

David Iben: Yes, thank you because actually in an earlier question somebody asked me about catalysts which I neglected to address. Catalysts are not something we've ever spent much time on. We like it when we find them but usually stocks have moved tremendously before we or anybody else sees the catalysts.

And, you know, on March 10th of 2000 for some reason the NASDAQ stopped going up in value. Small-value stocks started going up with no reason; to this day, nobody's told me a reason. Why is it in '07 one day, all of a sudden the banks finally started falling when the problem loans had been apparent for quite a long time? I believe very, very strongly when you can buy great businesses in good economies at really, really cheap prices, it's highly likely that you make a lot of money and whether we have to wait a week or two here has never been our forte. We do fine with the exception of the late 90's and the last couple of years. You seldom don't have to wait a couple of years but that was extreme. This is extreme. The valuations are very, very extreme so if I had to guess, it will be sooner rather than later but we're less interested in the timing than we are in the magnitude and the magnitude of the under-valuations of some of these countries and sectors is something I haven't seen in 34 years.

I can't give the catalyst, other than valuation should serve to be its own catalyst.

Haydn Cole: Excellent. Thank you.

Operator: Once again it's star one if you'd like to ask a question. We'll go next to Gary Magnuson with Morgan Stanley.

Gary Magnuson: Hi, Dave. I was wondering if you could kind of talk about the types of companies you bought over the years from Tradewinds to now. It seems like now you have a little bit more in the hard assets space I guess. Maybe - I don't want to put words in your mouth though. So I was wondering if you can just kind of talk about where you found value over the years and how it - how it went.

David Iben: Absolutely, I would love to talk about that. Thank you. We, as I mentioned earlier, from the bottom up we try to come up with what we think a business should be worth with normal margins over a long period of time. The market seems to dictate where we are going to go. It was interesting how roughly a dozen years ago, following 20 some odd years of bear market, the market went from, in the early 80's, loving oil and loving agriculture and loving gold and loving base materials to absolutely hating them. And so the market compelled us to start getting into hard assets. They were giving them away. It wasn't gold so much. It was let's buy copper at ten cents a pound. We bought a copper company. We bought three nickel companies. We were able to buy lead and zinc. We were buying fertilizer for next to nothing - coal, uranium - those sorts of things. We owned a lot of it back in those days.

Now by '07 we still liked all those things. We didn't own any of them anymore. The market liked them also. I remember in '03 China took off and by '07 there had been such huge demand for base metals and a huge demand for agriculture and for energy. And so once the market agreed with us on that, we sold a lot of it and didn't have much. Then in early '09 people started wondering if we had changed our stripes and become growth managers. We hadn't changed our stripes, the market had changed theirs. They had said if you want to own Whole Foods Markets, you don't have to pay $74, we'll sell it to you for $10. And if you want to buy eBay, you don't have to pay $65, we'll sell it to you for $15 bucks. We'll sell you – Microsoft for $15 bucks. We'll sell you these great growth companies in India like ICICI Bank was down 85% and Tata Motors was down more than 85% and so then we were buying a lot of growth companies and emerging market companies.

Also in the '08 period is when gold companies became very, very cheap. That was the year where gold went up for the eighth straight year yet gold mining stocks - many of them fell 90%. We bought a lot of them. By the middle of 2011 we had sold over half of them. Now the market hates gold immensely and once again we're able to buy gold miners for very, very cheap. For people that followed us or have access to the records of the fund, you'll see uranium was something that we held a lot of and then later on held none of after it ran up, bought it back - the same thing with fertilizer. Many, many years we owned no healthcare whatsoever, then four or five years ago Eli Lilly became our biggest holding. Then we had Pfizer and Aetna and things like that as they became very cheap. Now we're not finding any healthcare stocks that meet our valuation criteria.

What we do is, we come up with valuations and the market sometimes will say, as in 1989 when it loved Japan and NTT was the largest market cap on earth, and about three years ago it became 4x cash flow and it was a big holding of ours. Emerging markets - of course the BRIC's were something we didn't own very much of four years ago and now we own more than we ever have because the market hates it. We decided not to either love them or hate them but avoid them when the market loves them and when the market hates them, that's the opportunity.

And so we have seen over the last three years we've slowly sold things in the U.S. as they've gone up and sold healthcare as it's gone up and sold consumer companies as they've gone up, and right now a few years ago we had more in Europe and Japan than we've had in quite some time. Now we have more in emerging markets than we've had in quite some time. And yes, once again the market is paying a lot for cash flow they can see and yet they're selling things cheaply if they can't see the cash flow.

Good assets - if we're right about them being good assets - will be turned into meaningful cash flow in the future so hence we own uranium in the ground and coal in the ground and gold in the ground and we own utilities that are under earning at the moment that we think will earn well in the future. We own gas companies that are hated because they're in emerging markets and we own telecoms that are hated because they're in emerging markets and so on and so forth. And if you add it all up, I think we're fairly diversified. It's just we have not that much in the U.S. where the market has a lot, and we have roughly a third in the emerging markets. Keep in mind the emerging markets are now more than half of the world's GDP. So in a way maybe we're under owning them but we own a lot more in the emerging markets than others. And yes, we tend to have more intangible assets right now and less bond like investments with stable sustainable but inadequate cash flows in our opinion.

Gary Magnuson: Can I ask sort of a dumb question as a follow-up? I know it's not a really dumb question but how do you respond to people like say the Stanford Endowment where they kind of divested of coal? What's your view of kind of the environment issues and things like that - I mean when you're looking at more mining companies and things like that and coal companies, etcetera.

David Iben: No, absolutely not a dumb question. We've spent lots of time on such things from an economic standpoint. So, you know, it feels good to own the right things but more than feels good, we look at sustainability so we can spend a lot of time modeling something and things that are good will probably have a better future than things that aren't. Hence the bold idea of bigger margins of safety for some things than for others.

So we've got a lot of things going here. One, is energy good or bad, and the market goes back and forth. We'll never have enough energy for seven billion people. It's now 7.3. It's going to go to 8 billion. Energy surely will play out for all energy stocks, and then you have times where people don't like energy stocks that there's just too much energy and the world's slowed down. The world's become way more efficient and who wants energy. And then even within the energy there are times where people will say we will really, really pay up for clean energy and then there's times where they'll pay up for things like coal because China has a lot of it and that if the steel industry picks up, they're going to use it. We tend to say - on the whole concept of energy we think long term more people will use more energy and that'll be offset a little bit by efficiencies and optimizations and that's good. We think over time the future is really rosy for things like hydroelectric power and nuclear power and things that are very low variable cost and have no sulfur and no nitrous and no greenhouse gases. So we are willing to take a moderate sort of margin of safety on that. Oil and gas are a little more difficult. Gas is hard to store and needs to be transported but it's pretty clean so it's okay and oil is easy to transport - a little less clean, okay. And then there's coal. Coal is dirty and coal is really problematic and coal takes a lot to transport and we would soon rather not own coal.

And on the other hand of the spectrum millions of years' worth of sunshine have been captured in hydrocarbon forms just like with oil. It is abundant and it is a different grade but some of it is filled with energy. A lot of countries have coal and don't necessarily have much gas or much hydro or much ability to capture sun or they all have their own pros and cons.

So we can say coal is neither a horrible thing that's going away nor a wonderful thing. Let's just say it is still half of the world's energy production. It is not going away. It will slowly lose market share. If we might want a 25 or 30 margin of safety for uranium related things or hydro related things, maybe we want 40 or 50 or 60 on coal. Coal's a very important resource and especially important to countries like China and India which two of them put together have I guess a third of the world's population.

So that's one point is we don't love it but we do like it and we will pay a price for it and a fraction of a ton is way, way too low a price. Then related, which may or may not be interesting to people, on the whole social issue there is no clear right or wrong but it is nice to make the world a better place, especially when it can make things more sustainable and create more money for our shareholders. To say we will never invest in any business that extracts energy from the ground or metal from the ground, we're not going to invest in any company that, you know, makes bombers or any company that makes a drug that someone doesn't like - we don't do that. But we do call these companies up and we do send them letters and we do say you have things that are potentially worth billions of dollars and we're more likely to make those billions of dollars if you make the coal cleaner and you make the mines safer for your workers or if you clean up the environment afterwards and leave the place in better shape than you found it, you know, there's less likely to be expropriation.

And so whether it's the utilities that are burning coal or the mines that are mining it - we tell people we're long-term investors. Don't make the world less safe and less clean so you can beat by a penny. That might be cutting off your nose to spite your face. And the saying goes that you might save a penny now and find that your mine has been taken from you in the future or that there's lawsuits or that communities won't allow you in.

And so we do take it seriously there. You know, we don't avoid industries. We go in there 1) trying to make money on those industries and 2) trying to let people know we approve of sustainability and better environments in the future.

Gary Magnuson: Thanks.

Operator: We'll take our next question from Bradley Calder with the Investment Fund for Foundations.

Bradley Calder: Hi, David. I had a question for you about another undervalued market and was curious if you guys had looked at any companies there.

We were curious if you'd been looking at publicly traded companies in Iraq. You had mentioned before that you're comparing Apple to the market cap of Russia and, you know, the market cap in Iraq is around $7 billion but the oil reserves there are in excess of $7 trillion so putting things into perspective, it may be interesting. Curious to hear your thoughts. Thanks.

David Iben: Yes, we got it from the bottom up so we go to the firm and say let's look or not look at Iraq but analysts on their own will say I've found something there or I haven't found something there. I know our telecom analyst has found interesting things there and our oil analyst has found interesting things there.

It's something that's on our radar screen. It's also something that's very difficult to invest in. To do it through swaps markets or to get set up in all these accounts. So it might be difficult to do and we don't have anything approved there yet but it's on our radar screen.

Bradley Calder: Thank you.

Operator: It appears there are no further questions at this time. I'd like to turn the conference back to Mr. Iben and Mr. Gaffar for any final or closing remarks.

David Iben: All right, well once again thank you all for calling in. These are interesting times and we think it bodes well for this sort of portfolio and time will tell but appreciate all the good questions and the interest and support. Thank you very much.

Operator: This concludes today's conference. Thank you for your participation.