



MASTER AND SERVANT

*"We call it master and servant"
"Forget all about equality"
"Domination's the name of the game"*

-Depeche Mode

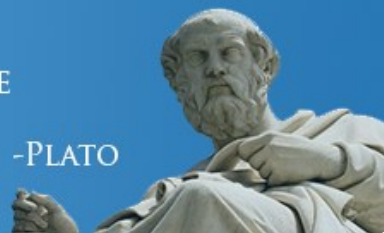
"We are the master of the unspoken word, but the slave of the spoken word." Various sources have been credited with this quote over the past several millennia. Regardless of who first coined the phrase, it seems like advice worth heeding. In the words of this commentary's featured artist – Depeche Mode – *"words are very unnecessary, they can only do harm."* And yet, what follows is another wordy epistle. In these missives, our goal is to articulate what we are seeing in the marketplace, and hopefully how it plays to Kopernik's competitive advantage, and how we expect to exploit the opportunities available at the time. We often attempt to speak ideas that go unspoken in consensus circles, while adhering to facts and leaving unspoken – hearsay, gossip, forecasts, and views that we wouldn't be willing to defend in the future. Nevertheless, here we are sending out an investment commentary based on an SMBD song. If you are worried that this could disintegrate into a rant about the unintended consequences of a decade of interest rates held in bondage, and of the other sadistic policies of world's central banks, as they continue their dominance over investment markets across the globe – we plead guilty as charged. The analogy is as easy as it is irresistible. But, that is a small part of the discussion at hand. It is mostly about the fallacy of allowing independent thought and judgment to be subordinated to the dominant theories of the day; to formulaic investment models; and especially to price insensitive approaches. The contemporary marketplace leaves no shortage of things to deliberate. We will mull over the escalating friction between man and machine, money and derivatives, theory versus reality (as Yogi Berra says, "in theory there is no difference between theory and practice, in practice there is), investing - post the shackling of free-market capitalism, and more.

To give away our conclusion, **we prefer guidance to dependency, judgment to data**, i.e. being the master of concepts to being their servant.

Robo-Advisors/ETFs/Passive Management

"A GOOD DECISION
IS BASED ON KNOWLEDGE
AND NOT ON NUMBERS."

-PLATO



The plotline of so many science-fiction books and movies used to seem so far off into the distance. Now that future sometimes seems all too close. When will the singularity occur? Will that be the advent of utopia or the dystopian stuff of movies like The Terminator and Star Wars? Neither scenario is likely perhaps, but technology is apparently making anything possible. Will the billions of people losing jobs to machines be supported by UBI (Universal Basic Income)? Will they find much more rewarding or creative endeavors or will they find that they've become redundant? Worthless? Will CRISPR (Clustered Regular Interspaced Short Palindrome Repeats; used for gene editing) and other changes in biotechnology deliver immortality and improved lifestyle or will humans come to rue the day we decided to "play God?"

It seems like there are a great many jobs that are best handed off to machines. And yet, there are many other cases where jobs are dehumanized and where livelihoods are needlessly threatened. Debates about issues like why human labor is taxed while machine labor is not (even receives tax benefits) deserve to be heard. Regarding robots, both pro and con, the list of attributes is long. Is it



denial, or a reasoned analysis, that leads us to believe that, at least for the foreseeable future, as pertains to Investment Analysis – humans are not on the endangered list? Why do we come to this conclusion?

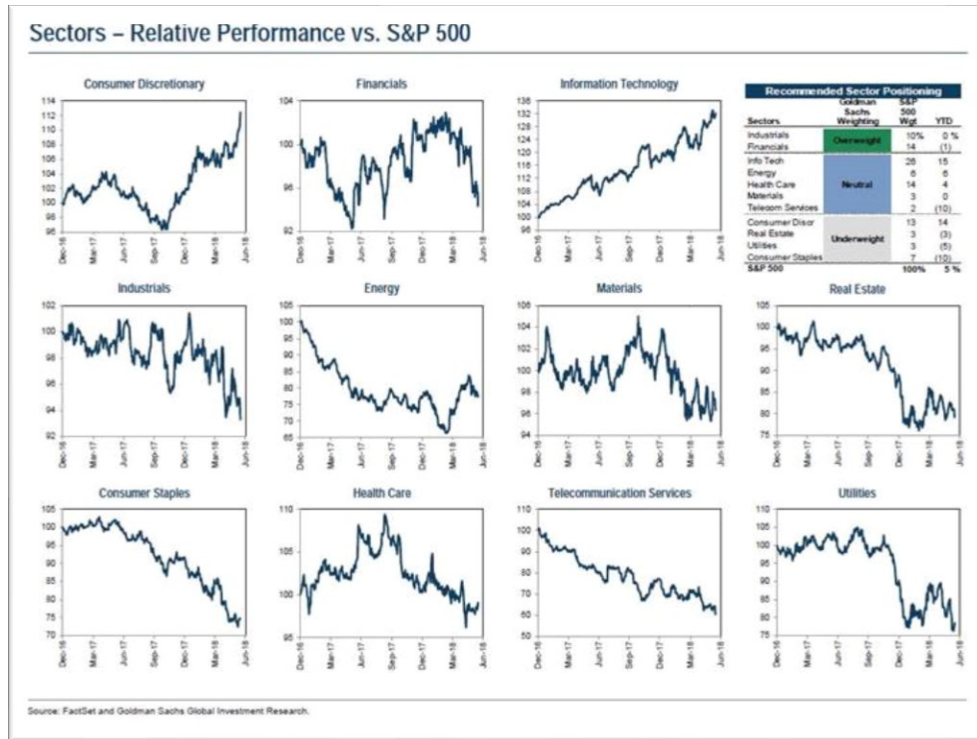
Fully aware that much of the industry has already been handed over to machines, we still strongly believe that **thought is too important to be delegated to machines and that managing peoples' valuable capital is too important to be done without rigorous due diligence and thoughtful analysis**. We often feel most optimistic when our views are far from the mainstream. This is one of those times.



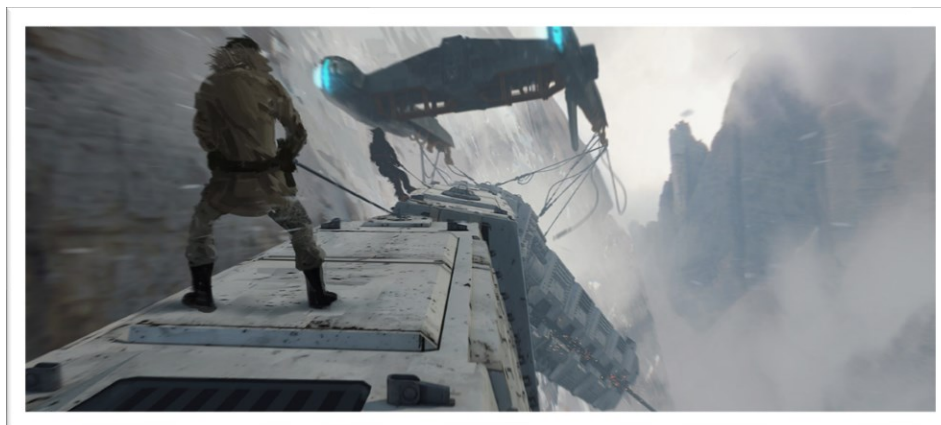
Obviously, computers are far faster, much better at gathering data, and calculation is instantaneous. But, while robots and algorithms are vastly superior to humans in many ways, they still lack *judgment*. They can't think nor exhibit anything akin to the 'wisdom of Solomon.' And, **in investing, a field that is famously a blend of science and art, isn't judgment what really matters?** In a weird paradox, computers have allowed mankind to formulate and embrace more theories, which in turn, have caused increased use of computers, which unfortunately, due to the inherent fallacies embedded within, have had spurious consequences. Perhaps the prime example of the problem is that **computers' need for data have led mankind to quantify and digitize items that can't be quantified and digitized.**

Risk can't be quantified. Howard Marks points out in *The Most Important Thing* that risk "means that more things can happen than will happen." How would one boil that down to a number? One can't, so academics decided that risk would henceforth be defined as volatility. So, a number that: deals with the past; disregards price and valuation; doesn't distinguish between temporary and permanent loss of capital; doesn't factor in loss of purchasing power; confuses volatile *increases* in value with risk; doesn't properly factor in magnitude; and certainty can't predict what could, or would, happen in the future; is now the predominant measure of risk in this confused world in which we live. Why should investors allow themselves to be indentured to such a notion?

Tracking error is another confused concept. How should a manager deal with a conundrum whereby tracking an index guarantees mediocrity and thereby doesn't justify charging a management fee, but, conversely, positioning a firm to perform much better than the index perversely puts the manager at risk? You may ask how could that possibly be? Beating the market seventy percent of the time could lead to a decade that includes seven years of pleasantries, but three years of tough conversations with clients/colleagues/friends, and the potential for a significant loss of clients and economics. Therefore, to avoid career risk, many have redefined tracking error as investment risk, making its avoidance easier to justify. Tracking error is a measure that can be easily calculated and followed by computers. So, once again we have a risk measure that: is backward looking; implicitly assumes that the benchmark index is riskless; is indifferent to the price of the index; is indifferent to the valuation of the portfolio; and doesn't even claim to measure the prospect of permanent loss of capital. The potential for this misguided assessment to lead to enormous problems in the future should be self-evident. This topic was covered in depth in our last commentary, "Runaway Train," so we'll move on. But not before a quick addendum. Since we published "Runaway Train," we have figuratively been watching the market 'derail' in slow motion.



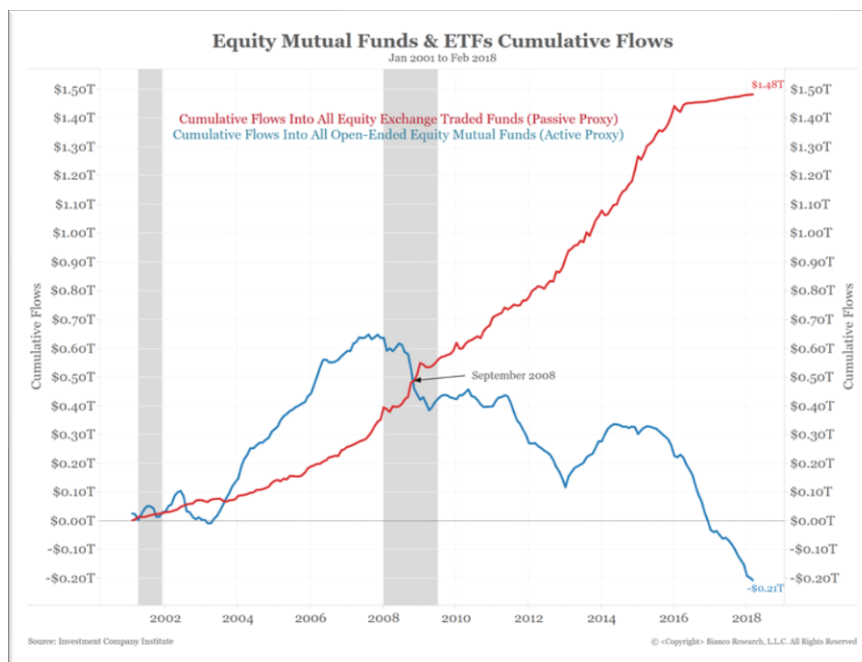
These charts show that on a relative basis, every sector but two seem to have become uncoupled from the locomotive. Carrying less weight after shedding 9 of 11 ‘cars,’ the trainload of consumer and tech stocks speeds along blissfully. You may be thinking, “Kopernik doesn’t focus on relative performance.” That’s correct. The absolute performance is both more meaningful and much uglier. Since the peak in late January, the following ACWI sectors are down in absolute terms (as of June 23, 2018): Consumer Discretionary, Utilities, Healthcare, Real Estate, Energy, Consumer Staples, Materials, and Industrials. The latter three are down 9% (and were presumably down nearly 10% before yesterday’s rally). Still down more than 10% after the rally are Financials and Telecom. Elsewhere, whole country’s markets seem to have jumped the rails and cascaded down the canyon side. Down more than 10% (in USD) from January 26th were Malaysia, Thailand, Indonesia, Korea, Switzerland, and Mexico. More than 20% down moves were registered in the Philippines, China, Hungary, and Poland. Notable casualties included Brazil (down 31%) and Turkey (down 34%). We’ll know soon enough which sectors and countries fail to make the next hard turn.



(Solo, A Star Wars Story, brings us a train from the future – The Conveyex. Two-tiered, with cars above and below the track.)

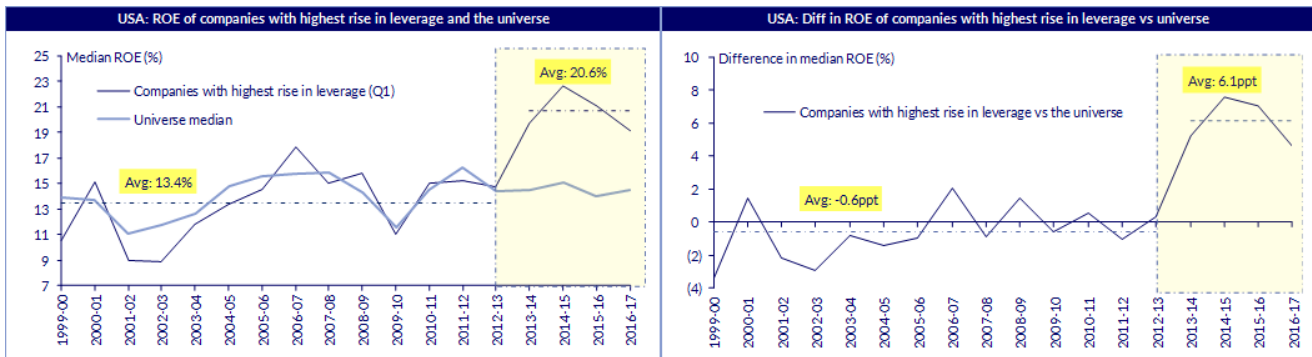


From here we could go on to discuss other misguided risk-related concepts, including VaR, Beta, Standard Deviation, MPT (Model Portfolio Theory) and CAPM (Capital Asset Pricing Model), and more, but we won't. Risk deals with the future, not the past, and **it can't be boiled down to a number**. One should think twice about enslaving oneself to the output of any manmade model, but for a whole industry to become beholden to numbers that are clearly the bastard children of misguided academics, is stuff for the economic history books of posterity.



And yet, price-insensitive investment continues full speed ahead. As we pointed out in “The Passenger” and “Runaway Train,” a few investors can theoretically get a free ride off of the horde of active managers, but when everyone is taking the free ride ---- well, turning back to the Depeche Mode – “*It's a competitive world. Everything counts in large amounts.*” And, as the preceding chart highlights – “*The grabbing hands, Grab all they can.*” How might these strategies perform in the face of selling? “*There's no turning back. The graph on the wall, tells the story of it all. Picture it now.*”

But wait, we're told. Not everything is mindless. There are many sophisticated models and products out there. There is 'smart-beta,' and other 'factor-based' models. They have a point; at least at first glance. Rather than mindlessly investing in securities the way standard passive strategies do, factor-based models use an increased level of granularity when choosing securities. They do incorporate attributes designed to increase returns. And, while we should approve in theory, investing isn't that easy. There is a reason that Kopernik has always said that, for us, value is a pre-requisite rather than a philosophy. Common valuation metrics are useful *tools* to assist in identification of value-laden investment candidates, but are horrible *masters* when given the charge of dictating what value is. Things change. That's why 'style boxes' can be so dangerous. Many of the best performing managers of the late 1990s were subsequently decimated during the early part of the 'ought' decade because their style box 'mandated' that they only own 'growth' stocks, which unfortunately, at that time, were horribly overpriced. In turn, many of the best performing managers of the first seven years of this century were annihilated in 2008 and 2009 because their style boxes dictated that they adhere to 'value' factors such as P/E (price-to-earnings) and P/B (price-to-book value). The market offered them a plethora of choices that unfortunately were predominately all in the bank, mortgage, and real estate space. Oops. Now, many models are looking for reasonable P/E ratios without giving adequate thought to the reasonableness of the income margins upon which those earnings are predicated. Looking at the chart below, sound judgment requires second-level thinking.



Source: CLSA Microstrategy

Additionally - markets are sometimes gamed. If the models/investors are identifying sales growth, companies will go out and buy sales. 'Investing' in EPS growth? They will transfer book value wealth into the income statement via buy-backs, etc. If they're piling into high ROE (return on equity) stocks, managements will accommodate; it's much harder to make returns go up than it is to make equity go down. Therefore, the denominator will shrink as management destroys it via 'one-time' write-offs, ill-advised stock buy-backs, and clever accounting.

Jared Dillian sums things up well in a recent issue of TDD (The Daily Dirtnap). *"This is where we are in 2018, where we root for factors and not stocks. ... The first time I learned about quant factors was in 2008, when the quant blow up happened. I think if a lot of people knew what happened in the quant blowup, it would melt their brain. But now, factors are out in the open, and it should surprise nobody that certain factors have become quite crowded. These days, it is happening right out in the open. If there is another quant blowup, it is going to take out a lot more people than the quants; that is for sure."*

In his, "The 10th Man" publication he further elaborates, *"Wall Street folks spend a lot of time trying to sound smart. It is a big contest to see who can blind the most people with science."* We can't say that he's wrong.

People can talk all they want about 'smart beta' adding a value dimension to passive investing, it does somewhat, but let's face it - **momentum** is the trade du jour. Anti-Value! Any guesses as to how that will end? We have ours.

Investopedia describes smart beta as 'a combination of efficient market hypothesis and value investing.' One would expect to see that example when googling 'oxymoron.' **Value investors profit from the mis-pricings that EMH apologists claim don't exist.** Let others chase momentum, trends, and factors. Kopernik will continue to research, analyze, appraise, and invest in individual businesses.

The main conclusion of the first few pages should be that - **when most everyone has thrown in the towel on active management, it is the best time to embrace it.** And, thrown in the towel, they certainly have! Kopernik is sanguine. We are aware that mankind is the most illogical of creatures, but still, we'll take logic and foresight over superfast data crunchers, any day. Just what is it that they are crunching? Computers haven't eliminated the tendencies of people to take trends to dangerous extremes, they have magnified it. Momentum investing on steroids. **The less time people spend doing active research, the easier it is for the remaining practitioners of the trade; the greater the prospective returns will be.** As was the case in the three similar eras over the past century - 1929, 1972, and 1999, the current environment, momentarily feels like hell for value-investors. And, as was the case following those three kindred markets, the aftermath likely should prove to be more like value-nirvana. Patience is required.

Environmental, Social, and Governance (ESG)

In a world where analysis has become ever more difficult, ESG can be an incredibly useful tool. We talked earlier about the importance of second-level thinking in a dynamic world. In addition to asking 'what are margins,' it is imperative to further inquire, 'what could margins *likely* be in the future?' Is the status quo sustainable? If things are aligned well for the shareholders, that is wonderful. If things are aligned well for the other stakeholders of the company as well, that is spectacular. When, however, there



is a major misalignment, a caution flag should be raised. If employees are underpaid, or otherwise mistreated, don't be surprised if competitors end up with a better workforce. If top management receives 300 times the pay of the average employee – ditto. If goods and services to the client are cheapened to enhance profit margins, don't be stunned if client loyalty wanes. If the community is taken for granted, don't be surprised if/when that table turns at some time in the future. If the environment is abused, so much can happen to the detriment of a company: lawsuits, fines, reputational damage, lower quality of life, expropriation of property, and loss of future opportunity, to name a few. Taking advantage of creditors can lead to disadvantageous funding or rough treatment when the tide turns. We could continue, but hopefully the point is made – poor management of ESG issues can increase risk to a company and thus to its investors. A greater margin of safety is in order.

Yet, further supporting the thesis of this paper, ESG is another example of a great tool that makes a bad master. Good ESG factors cannot be categorized and pigeon-holed any easier than risk can. Is wine good and whisky bad? Pita chips good – Fritos bad? Is nudity art or is it porn? Is society better off with no hydrocarbons; should we all bicycle to work? Are stock options a way to incentivize management, while aligning them with shareholders, or are they an easy way to tilt the upside toward management while leaving the risk entirely on the shoulders of shareholders – all-the-while utilizing accounting rules that facilitate the massive under reporting of the expense?

Are most of these issues clearly either right or wrong? Binary? Capable of being assigned a *degree* of perceived malous? Is it better to formulaically avoid investment or to engage with management in support of positive change? We do not claim to have the right solution for everyone regarding this thorny and subjective topic. As for ourselves – we prefer: judgment to rote omission; proactiveness to reactiveness; and serving the stakeholders to serving a restrictive model, which we view as another inappropriate master.

For example, are prescription drugs *tools* to help customers through life's small problems, or are they the cause of life's big problems as they *enslave* customers into addiction?

Are food additives *tools* to make food more enjoyable, or has society, in many cases, reached the point where too much of the nutrition has been replaced by nutrition-less ingredients? Additive substances?

Are regulations good or bad? They are clearly both. They are clearly necessary. But incentives tend to be useful tools, where regulations often replace judgment with oppressive disincentives.

The list could become long – but let's move on to more pertinent topics.

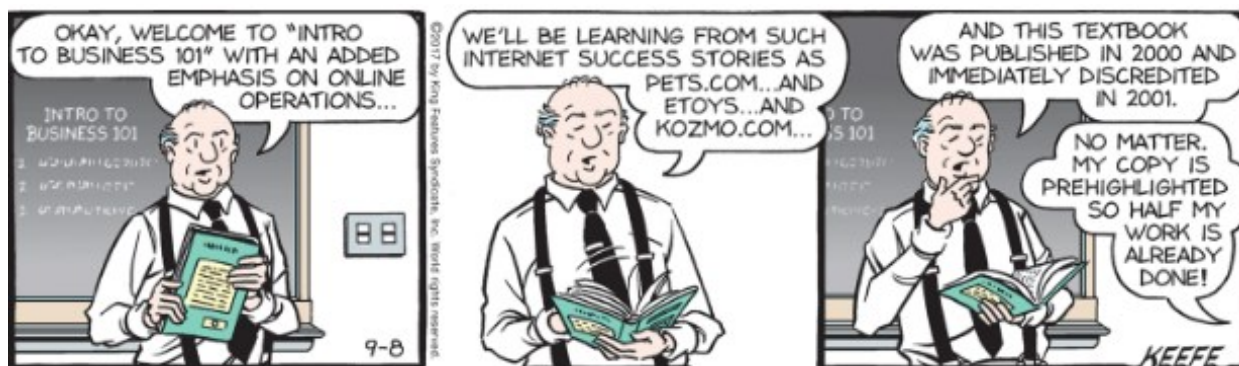
Economic Theory

"We call it master and servant. It's a lot like life"

-Depeche Mode

Academic theory and economic orthodoxy make horrible masters, and many investors have unwittingly fallen into line behind these unworthy despots.

I'll never forget when, feeling quite proud of myself for acing my first upper division economics class, the professor took all the wind out of my sails. He reminded us that back on the first day of class, we had been told that all the theories and equations that we were about to learn, are based on a set of assumptions. Well - in the real world these assumptions don't hold true. Talk about deflating. I held a negative view of economics for a number of years, but later came back around. Due to the numerous assumptions, only a fool takes it literally, on a detailed level, but, when every now and then, 'real' world data ventures **far** from what logical economic theory would suggest, **it's time to take it seriously**. As Depeche Mode put it, *"Everything counts in large amounts."* While economics make a lousy ruler, it can be a useful tool. Now - 2018, we firmly believe, is one of those time when paying attention is warranted.



There is so much to say. Where to start? Let's begin with money. This subject is perhaps where our topic at hand is most quoted - *"Money makes a wonderful servant, but a horrible master."* Kopernik couldn't agree more, and we've always subscribed to Charlie Munger's view that, *"the best way to earn money is to deserve to earn money."* We've always viewed profit as a wholly inappropriate goal, but fortunately we work in an industry where it is a likely outcome of a job well done. We focus on what we can control – our effort, integrity, judgment, and adherence to our time-tested process.

Returning from that tangent, a discussion of money should start with the role of money. It is generally accepted that money should be a store of value and a medium of exchange. Some would add 'a unit of measure' as well. That qualification may be distinct from the other two; that is not clear, though. Gold, of course, while not the greatest medium of exchange (it is cumbersome), is the one form of money that has withstood the passage of time. Many other forms of money have been tried in the past and been found wanting. Fiat currencies have an extremely poor track record (*Voltaire stated that fiat currency eventually attains its intrinsic value – zero*) but are still the predominant form of money being used worldwide. Now we've also seen the introduction of cryptocurrencies such as Bitcoin, which seemingly offer improvements over other forms of currency, but detractors will point out that there are still many challenges to be addressed. Perhaps the greatest obstacle will be to get people to sustainably believe that wealth can come from nothing. Credulity can only go so far. Working in cryptocurrency's favor is the fact that the current monetary system is unsustainable. As we ponder the future, let's weave the master and servant paradigm back in. It's been established, hopefully, that money should play servant to people, but people ought not worship money. But, should currency also play servant to gold (or other specie)? One hundred and twenty years ago, William Jennings Bryan argued vehemently that the dollar should not be shackled to gold. "I shall not be crucified on a cross of gold" was his well-known rallying cry. This view almost won him the presidency of the United States. But even he believed in specie, arguing for a bimetallic system of gold and silver backing the dollar. The generation following Bryan put forth John Maynard Keynes, who went so far as to suggest that gold was a barbarous relic. Why, he asked, should people suffer because governments are unable to step in to provide sustenance to people in need; unable to step in because 'money' was scarce, anchored to an outdated gold-fettered monetary system? But even Keynes seemed to appreciate the role of gold. The Bretton Woods system that he helped orchestrate was anchored by gold. If one were to put words in his mouth, he seemed to be saying that gold should not be God, but it was a useful tool, a good servant. There are many who believe that Keynes himself would have been appalled by the policies of the Neo-Keynesians. President Nixon proclaimed that "we are all Keynesians now," as he reneged on the obligation of the U.S. Government to maintain convertibility of the dollar into gold, thereby trashing the system that Keynes had played a key role in authoring. As a result of Nixon's action, gold would henceforth neither be a master of the worlds' currencies nor would it even be a useful tool. Currency, worldwide, has since been unanchored, getting its 'value' purely by government fiat and the credulity of the citizens. But, where Nixon's actions seemed reckless, even criminal to the orthodox, they hadn't seen anything yet. Who could have conceived of Ben Bernanke, or Mario Draghi, or Haruhiko Kuroda? As long as currencies serve central bank masters rather than serve as proxies for gold or other substances of inherent value, it is likely to continue 'raining from the sky' like confetti.

This leads us to another economic *tool* that is only useful when things get to extreme levels: $MV=PQ$. This relationship, which has been analyzed in past Commentaries, suggests the obvious – that there is a link between the amount of money and the aggregate level of prices in the system. To the best of our knowledge, this linkage was first documented by our namesake, Kopernik, aka



Copernicus. The problem with the formula as stated above is its exactness, combined with the facts that: Price (P) is knowingly and willfully miscalculated; Quantity (Q) omits the most important components, such as real estate, bonds, stocks, other investments, collectibles, and others; Money supply (M) is hard to define (ask more than one “expert”) and even harder to measure accurately; and Velocity (V) is merely a plug figure, rendering it essentially useless. In the 1980s, many people were obsessed with the weekly money supply data, reacting strongly to numbers that were a fraction of a percentage point away from expectations. With hindsight, this was silly. Conversely, over the past decade, people don’t worry at all over the money supply growth. They applauded when the Fed quintupled the supply. They thoroughly approved when the Fed handed the baton to the world’s other central banks, which in turn have printed more money over the past several years than in any other time in recorded history. The fact that no one pays heed to this useful monetary tool, at this juncture, will be viewed by posterity as equally silly.

*“Never again
Is what you swore
The time before”*

-Depeche Mode

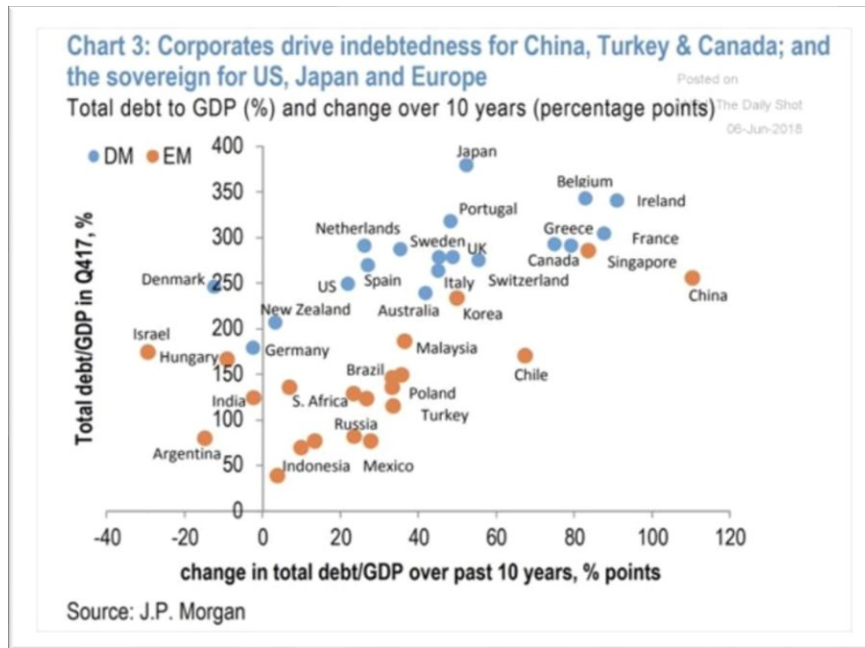
The dollar held its value when tied to gold. It lost value when its ties loosened, and it plunged following the scuttling of Bretton Woods. That has been the fate of all currencies that have served political masters. We feel that cryptocurrencies will prove no different; they will be anchored by specie or they will prove to be lousy stores of value. Our advice – if you choose to hold fiat currency or cryptocurrency, insist on a sufficient rate of interest to offset the inevitable loss of purchasing power.



Moving on to the topic of debt. If gold is money, and currency is a derivative of money, debt may be thought of as a second derivative of money. It is the right/obligation to receive/pay currency at some time in the future. A case can be made that significant borrowing is akin to promising oneself into future servitude in exchange for something of value today. Keynesians would view it from a vastly different vantage point. Keynes believed that public debt, incurred to support public spending, would in turn lift an economy out of the doldrums, which would in turn allow the debt to be repaid. Magical. But, remembering our main point, rather than get too

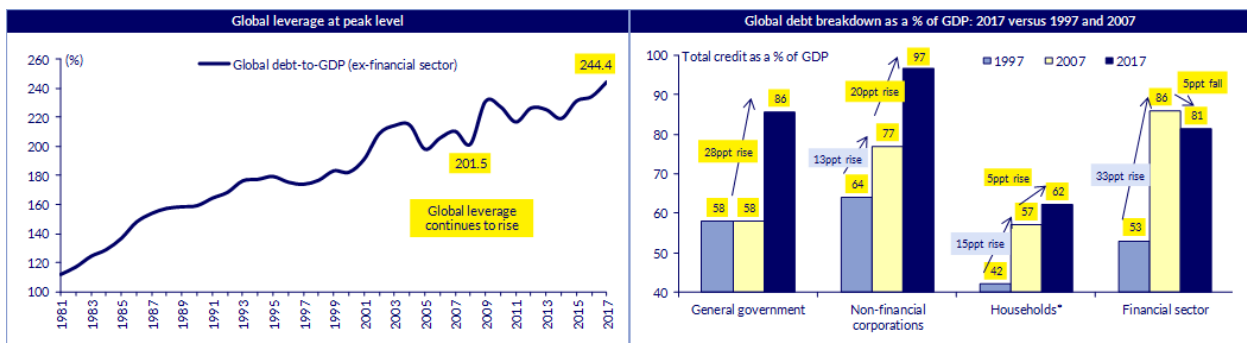


lathered up over the accuracy of his theory, let's focus only on extremes. Keynes himself would have strongly disapproved of the spurious excesses in debt we see today. He believed that deficit spending cures depressions, but otherwise isn't warranted. Public debt should be incurred to match public investment, not for ordinary spending or transfers. He thought debt should only be used properly, and he was wary of perpetual debt. What would he think of the size of contemporary debt? The use of the debt?



The efficiency of debt? Moving on from public debt, what of ballooning corporate debt, used not for investment purposes but for disinvestment, such as dividends and the repurchase of shares, at all-time high prices/valuations? What of the tendency of consumers to borrow for luxury goods, while struggling/failing to make payments on student loans and car loans? Debt, too, makes a good servant (buying a home while the kids are growing up and living at home; financing a factory to build things; working capital, etc.), but a terrible master. And as for the lenders, we would suggest that what can't be paid, won't be paid. History is rife with defaults, moratoriums, inflations, and other methods of wealth redistribution. Are you receiving enough yield to compensate for these risks?

'Things get Damaged, Things get Broken' – Depeche Mode



Source: CLSA Microstrategy



Investment Strategy

An environment where many are abrogating their duty to perform due diligence and others are falling victim to ego and to cognitive heuristics, we believe that peril and opportunities are extraordinarily high. When it comes to business and to investment, we at Kopernik believe in: independent thought and judgement; in broadening one's horizons a la Munger's Lattice Work of Mental Models and via a global approach. We believe in serving things of true value while never allowing oneself to become subservient to mere **derivatives of value**, and especially to anything devoid of value. We believe in investing in businesses at prices below the value of the underlying business. Derivative approaches to 'investing' - those that rely on others to actively provide the due diligence, the rationality, and the valuation framework required to keep the market somewhat 'efficient,' may have started out as good ideas but have now morphed into strategies that amount to a dangerous dereliction of a manager's duty to know what they are buying for their clients.

-Passive funds, ETFs, Central Bank purchasers, "Risk Parity" funds, and other price-agnostic buyers have become too big. The 'tail is wagging the dog.' We believe outsized returns await those who are still willing to put in the effort required to perform active research and management.

-Likewise, currency tied to (deriving value from) gold may have started out as a good idea. But, ultimately governments cheated, causing currency to vastly underperform gold. Since 1971, currency derives tangible value from nothing. Caveat Emptor.

-Regarding claims (bonds and other loans) on these suspect currencies, issued by governments that seem to have no ability to make good on their obligations and the purchasing power of which have made no promises to defend, Caveat Emptor in the extreme.

-As to those common stocks, of which success depends upon a continuation of low interest rates **and** large profit margins, we'll repeat – judgment is important.

-Conversely, for stocks that are priced as if supply can trail demand indefinitely, the future looks extremely bright. When demand caught up to supply, the markets rediscovered oil, coal, zinc, lithium, cobalt, and others. They will eventually figure out **the value proposition of uranium, gold, silver, platinum, and natural gas**. Likewise, they will come to believe once again that **developing markets are likely to grow faster than the U.S. economy over coming decades**. At that time, valuations will be at an entirely different level. We are thrilled about the bifurcation resulting from what we view as a plethora of thoughtless and bipolar investors. We are optimistic.

*"It's just time to pay the price
For not listening to advice"
-Depeche Mode*

Sorting it Out - When to Serve and When to be Served

In summary, we strongly believe that **wisdom, independent thought, and sound judgement are the attributes that matter most**. While this has always been so, they are more important than ever in the current environment, an environment where they have





become increasingly scarce. They are scarce because many have chosen to suppress them, make them subservient to academic dogma, to misguided orthodoxy, to dubious data, to career related pressures, to cognitive biases, and to other factors. We believe that data and models can be very useful, but should be vetted before they are used, and used only as tools rather than as creed, when used at all.

While this Commentary has focused on the fallacy of servitude to misguided ivory tower theory, behavioral heuristics, ill-conceived formulas, fiat money, and other 'false Gods,' we don't want to sign off without stating clearly that we are in favor of service to worthy 'masters.' Our culture centers on serving our clients, serving all stakeholders, and encouraging all to be true to their own system of values – be that in a spiritual sense or in an investment sense. Any sailor can tell you about the importance of being anchored to something solid when a storm hits. Better yet, to be moored behind the shelter of a breakwater. Anchoring to things of tangible value is important. Most any civilization will subscribe to importance of anchoring to an intangible set of values. These may take the form of scripture, law, societal norms, etc. The battle between right and wrong, between good and evil, is predominant in literature and film. Yet, cults, charlatans and others prey on those who are poorly anchored or adrift. Turning back toward investment, Behavioral Economists caution about the danger of anchoring on misguided heuristics. They will even suggest (and document) that highly intelligent professionals are often **more** vulnerable to falling victim to our cognitive biases than others may be. Our entire investment platform is predicated on anchoring to intrinsic values so that we can hold fast and safely ride out the storms and sail on course during good times.

Business-wise, intangible values are important. We are old-school. We are here to serve our clients and believe in putting their interests ahead of our own. We believe that while 'doing things right' is important, 'doing the right thing' is imperative. We pledge to continue performing our own research, doing rigorous due-diligence, developing our own appraisals of businesses, risk-adjusting our required margin of safety, and buying values even when doing so is unpopular; especially when doing so is unpopular. We endeavor to always employ independent thought, wisdom, judgment, and integrity.

To date, rather than making markets more efficient - robots, formulas, and algorithms have only served to take inefficiency to an extreme level. As a result, the future looks unusually bright for unfettered investing, for active investing, for value investing, and for idiosyncratic investing. We thank you all for your support and wish you a wonderful second half to 2018.

Cheers,

David B. Iben, CFA
Chief Investment Officer
Kopernik Global Investors
June 2018

judg·ment

[ˈjʌdʒmənt]

NOUN

the ability to make considered decisions or come to sensible conclusions.
"an error of judgment"

synonyms: discernment · acumen · shrewdness · astuteness · common sense · good sense · sense · perception · perspicacity · percipience · penetration · acuity · discrimination · wisdom · wit · native wit · judiciousness · prudence · sagacity · understanding · intelligence · awareness · canniness · sharpness · sharp-wittedness · cleverness · powers of reasoning · reason · logic · nous · savvy · know-how · horse sense · gumption · gray matter · common · smarts · sapience · arguteness · in my opinion · to my mind · in my view · to my way of thinking · I believe · I think · as I see it · if you ask me · personally · in my book · for my money · in my estimation



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