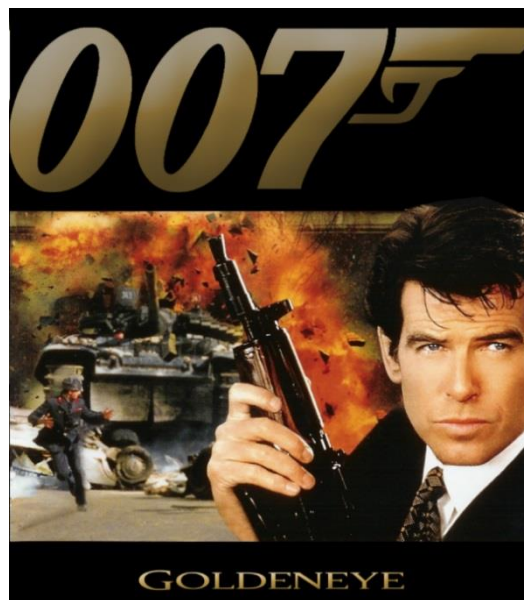




RUNAWAY TRAIN

Who doesn't like a great action movie? How many great chase scenes are there in the James Bond movies alone?! 007 performs stunts in cars, planes, helicopters, boats, ships, snowmobiles, skis, and much more, in his efforts to avoid villains or pursue Bond girls. The majority of the movies have train scenes as a staple. Great fight scenes, from the opening of *Skyfall* where Bond gets shot, to the battle in *Spectre*, to the 'disarming' conclusion to *Live and Let Die* occur on fast moving trains. The fights onboard include Connery in *From Russia with Love*, to Moore fighting 'Jaws' with an assist from Barbara Bach's character, or just the witty, entertaining verbal sparring between Craig's Bond and Vesper, in *Casino Royale*. Moore hangs off the side of a train while being shot at in *Octopussy*, which features a bomb on the train and (anticipating the train scene in *Trading Places*) even includes a guy in an ape suit. I seem to be one of the few who liked Pierce Brosnan (I liked all of them, even Timothy Dalton and of course George Lazenby - *On Her Majesty's Secret Service* was the first Bond I ever saw). Brosnan's *Golden Eye* features the dramatic fiery train crash shown towards the end of this commentary. In this scene, Fanke Janssen's demented Xenia Onatopp character seems to enjoy every moment of the disaster. Perhaps she should be considered for a seat on the Federal Reserve Board of Governors.



The Bond franchise is far from having a lock on train scenes. Just google train scenes or crashes and you'll be astounded at how many there are. *Runaway Train* (even lists 'first crash scene'), *Back to the Future 3*, *Silver Streak*, *Speed* (I know, it's a bus, but still), *Murder on the Orient Express* (just saw the remake), *Spiderman 2*, and the first *Mission Impossible*. The latter includes a great scene where Tom Cruise chains a helicopter to the train as the tunnel approaches.

Far from the most impressive, but the one that really brings to mind the central bank induced stock market melt-up, is the movie *Money Train*, starring Woody Harrelson, Wesley Snipes, and Jennifer Lopez. The movie is about the hijacking of a subway-train filled with money that eventually becomes a runaway. Per Rotten Tomatoes:

"Irresponsible Charlie has a larcenous streak and secretly fantasizes about robbing the money train, the subway train assigned to collect all the money gathered each day at each station throughout the city. He would use the loot to pay off his considerable gambling debts." Wikipedia continues: "Knowing that Patterson will direct his team to trip the train's brakes, the duo bleeds the brakes. Patterson then orders a steel barricade erected to stop the train, but John increases the speed of the money train to its maximum so that it smashes through the barricade. Transit control officer Kowalski declares the money train a runaway and starts clearing tracks, but Patterson diverts the money train onto a track occupied by a passenger train to keep it from having a clear path, putting innocent people at grave risk. The money train rams into the passenger train and then slows down, but speeds up again because it's in full throttle and rams the train again. It repeatedly keeps ramming the passenger train with the increasing risk of derailing it and killing everyone on board."

In the movies, these action scenes aboard runaway trains are often thrilling, fun, and inevitably end well. Traversing the anticipated segue to the financial markets, which currently are very much a figurative runaway train, things are even more thrilling, fun, and momentarily enriching. The pertinent difference being that out of control markets inevitably crash. This commentary is an argument in favor of high tracking-error, a data point often used to measure risk. That high tracking error is unsafe is surely true when measuring risk to one's career but, we believe, is inversely true with regards to stock portfolios. **The lower the tracking error, circa late 2017, the higher the risk of loss to stock portfolios.**

*"In finance, **tracking error** is a measure of how closely a portfolio follows the index to which it is benchmarked. The best measure is the standard deviation of the difference between the portfolio and index returns." – Wikipedia*



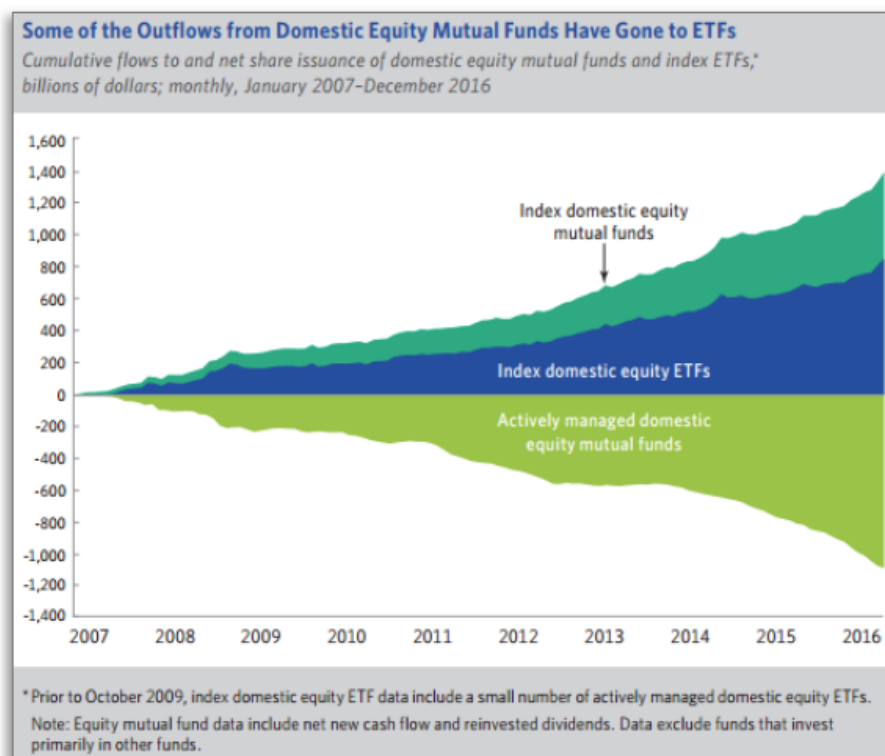
*"I can go where no one else can go, I know what no one else knows
Here I am just drownin' in the rain, With a ticket for a runaway train
Everything is cut and dry, Day and night, earth and sky
Somehow I just don't believe it, Runaway train never going back
Wrong way on a one way track
Seems like I should be getting somewhere, Somehow I'm neither here nor there
Bought a ticket for a runaway train, Like a madman laughin' at the rain
Little out of touch, little insane, Just easier than dealing with the pain"*
-Soul Asylum

The last Commentary was, by far, the longest in the twenty-plus years I've been writing them. This one is much shorter. Using a song about depression as an analogue for the investment markets, in general, and the ETF market, in particular, may seem an odd choice in a market that is anything but depressed. Euphoria abounds. But, in so many ways, it is ideally suited to the task at hand.

Starting with a non-sequitur, the song *Runaway Train* is often erroneously believed to be a Tom Petty song. It was a big hit for Soul Asylum, an alternative rock band from Minneapolis. Tom Petty didn't write this song but did write dozens of incredibly good songs. I've used his lyrics many times in these missives and was saddened to hear of his passing. He was one of the greats.

Back to the topic at hand, certainly the markets are looking like a *runaway train*, validating the opinions of those who have been predicting a melt-up of the stock market. Whether or not the train is on the right track, or worse going the *wrong way on a one way track*, **is the pertinent question of our time**. The best place to look for answers begins with perusing some relevant background facts.

1) Money is pouring into price-agnostic vehicles. ETFs are the poster child of investment sans due diligence.



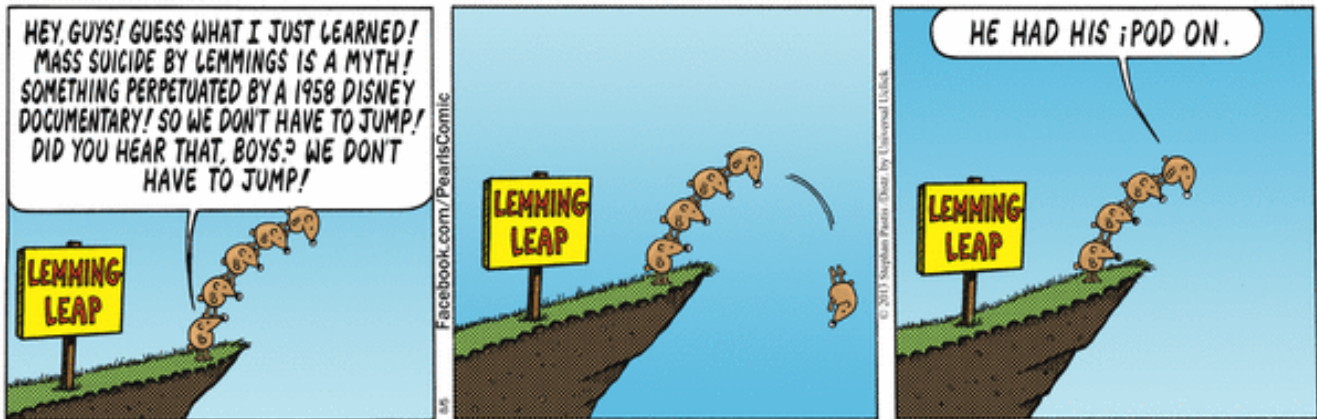


"All aboard! ha ha ha ha ha ha ha! All aboard! ha ha ha ha ha ha ha!"

*Who and what's to blame
I'm going off the rails on a crazy train
I'm going off the rails on a crazy train
Crazy, but that's how it goes
Millions of people living as foes
Maybe it's not too late*

*I've listened to preachers
I've listened to fools
I've watched all the dropouts
Who make their own rules
One person conditioned to rule and control
The media sells it and you live the role"*

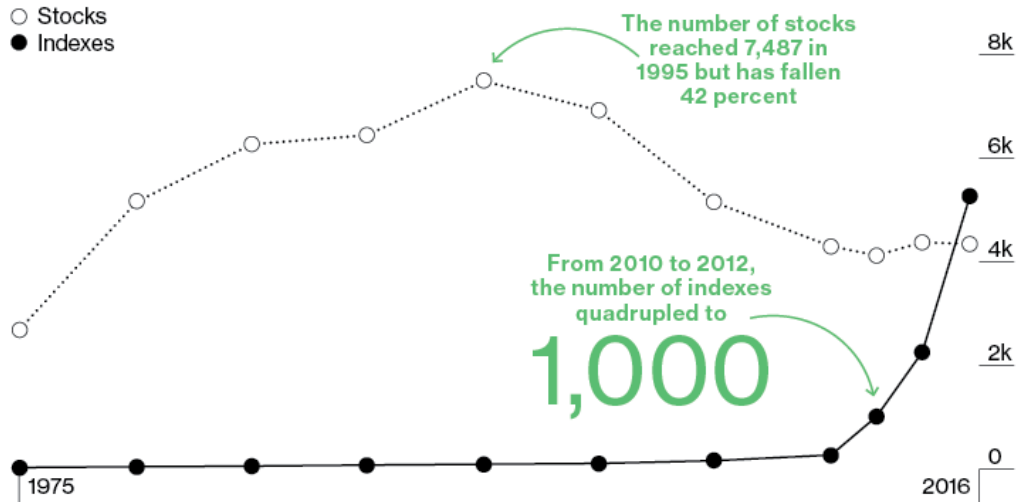
-Ozzy Osbourne - Crazy Train





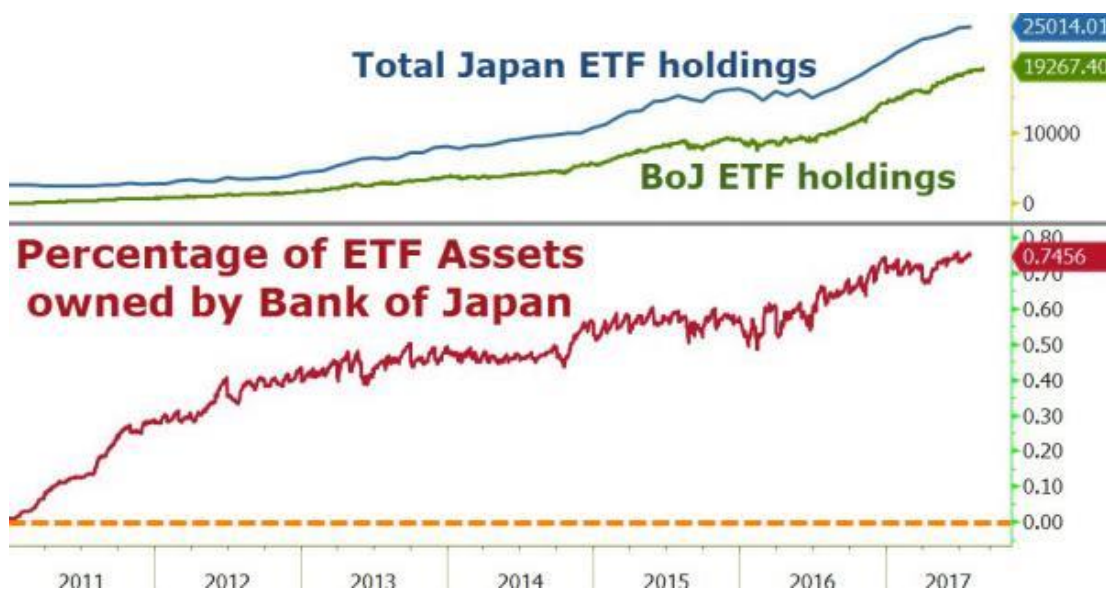
On a related note, quite perversely, there are now more indexes than there are publicly traded stocks!

The Rise of the Benchmark



*BLOOMBERG LP (WHICH OWNS BLOOMBERG BUSINESSWEEK) AND ITS AFFILIATES PROVIDE INDEXES TRACKING VARIOUS ASSET CLASSES. DATA: BLOOMBERG INTELLIGENCE, SANFORD C. BERNSTEIN, WORLD BANK. CASH FLOWS AS OF MARCH 31; GRAPHIC BY BLOOMBERG BUSINESSWEEK

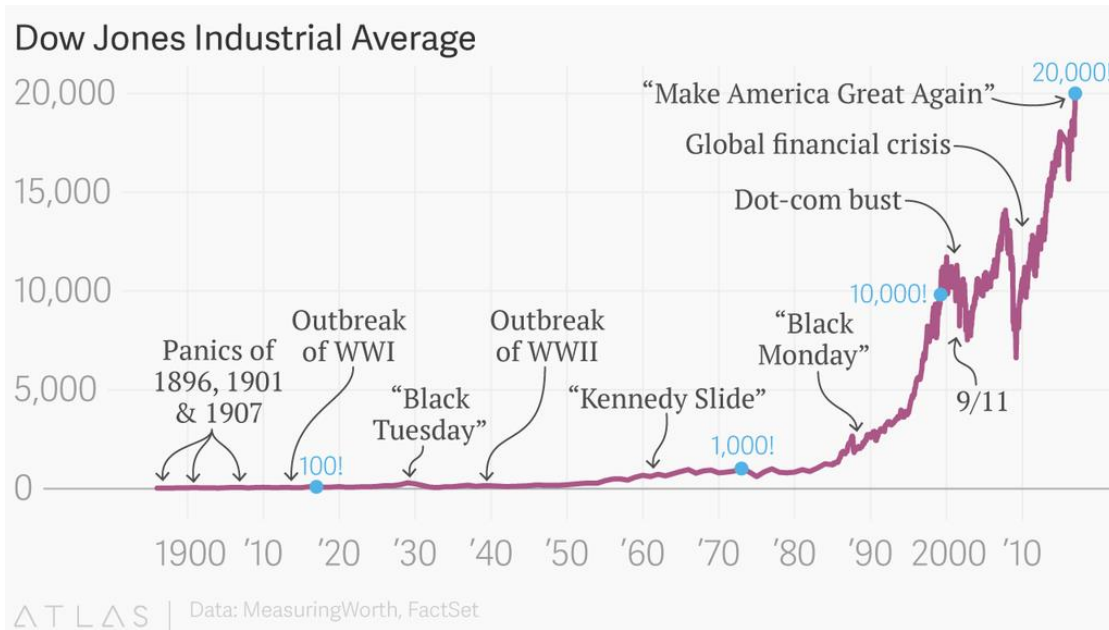
Other prominent price agnostic investors include index funds, closet index funds, and central bankers. The Bank of Japan, apparently now known as 'The Tokyo Whale,' has invested heavily in equities. They own between 50% and 95% of the free-float of many Japanese equities and, Zerohedge claims, 75% of all ETFs. Words fail me, so let's move on to the Swiss National Bank, which has invested in more than 2500 publicly traded equities worldwide, mostly in the U.S. All were purchased without regard to price. The market value was \$92 billion as of September 2017 and is certainly well above \$100 billion now. The SNB owns \$10 billion dollars' worth of Apple, Microsoft, Amazon, and Facebook alone. Adding Exxon, J&J, and Alphabet to the calculation vaults the math to \$15 billion. To put that into perspective, Kopernik has no intention of ever managing \$20 billion, in order to minimize impact on prices and maximize long-run return potential.



Source: Tyler Durden, Zerohedge



2) U.S. stocks are at all time high prices and valuations.



Most silly are the valuations of the popular momentum stocks. The astonishing ascent of Facebook, Amazon, Netflix, and Google (now Alphabet) stocks are now so well known that they are commonly referred to by their FANG acronym. Now that Apple stock has regained its momentum, the acronym has been expanded to FAANG. One of the more dangerous looking stock charts that you'll ever see is Nvidia's, leading to some expanding the acronym to FAANNG. Asia has acronyms to honor their most expensive stocks as well: BATS, TATS, SATT, etc depending upon how one wants to recognize Baidu, TSMC, Alibaba, Tencent, and Samsung. In this feast and famine world, we hereby christen the FAAAMINN acronym. It doesn't seem right to omit Microsoft and Intel, after all they've increased in value by over \$235 billion. By comparison, the world's gold, platinum and uranium miners

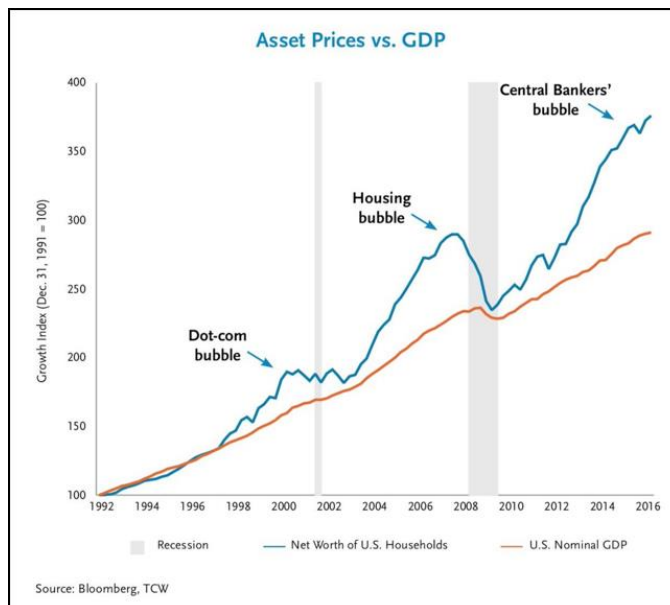


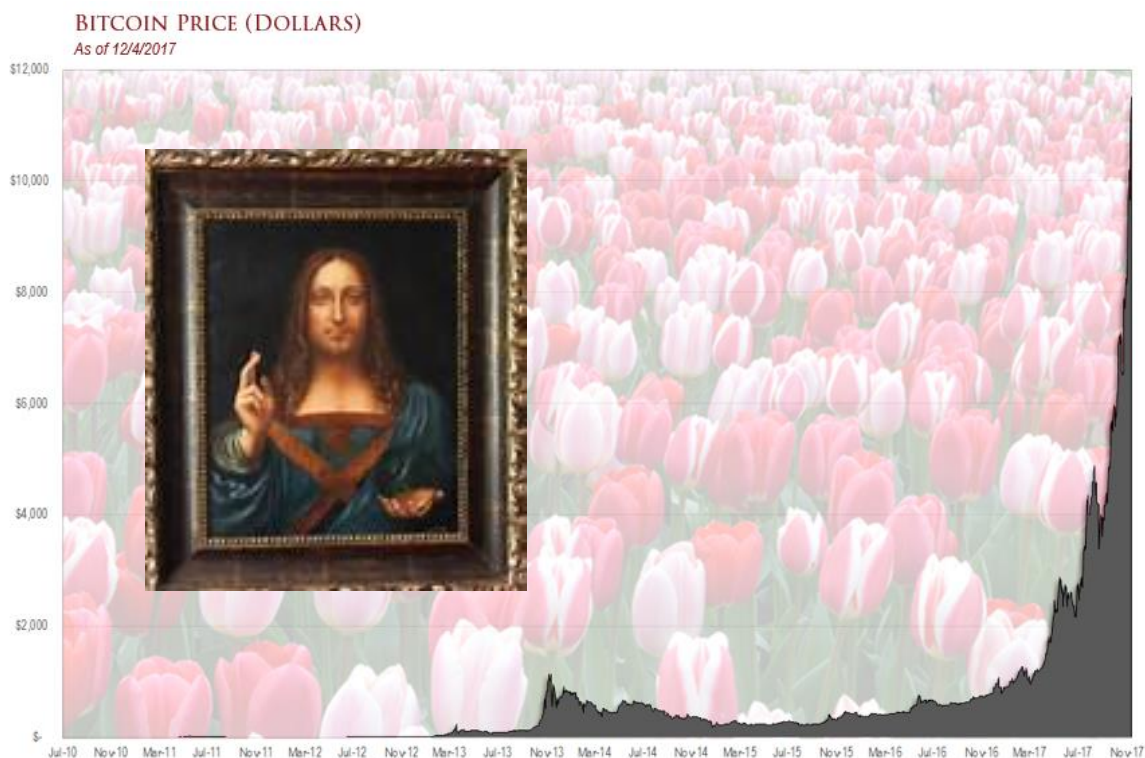
could all be purchased outright for \$300 billion. To be clear, we are comparing the outright purchase of multiple important industries to just the **increase** in price of two stocks. Feast your eyes on the following chart:



Note that this is just the **increase** in value, not the total value. To put that in perspective, Kopernik portfolios own the world's largest publically-traded companies in the following businesses: natural gas, trading (1 and 2), nuclear electricity generation, hydro-electric generation (1 and 2), uranium production, gold production (3 of top 5), pressure vessels, internet radio, and ATM manufacture. Regional leaders include railroads, shipping companies, phone service, banking, stock exchange, and farming. Every one of the 76 companies in the portfolio could be bought in their entirety, not once but, twice for less than the value of the **increase** in value of the FAAAMINN shooting stars over the past two years. The amount left over could purchase the world's four largest mining conglomerates (BHP, Rio Tinto, Anglo, and Vale).

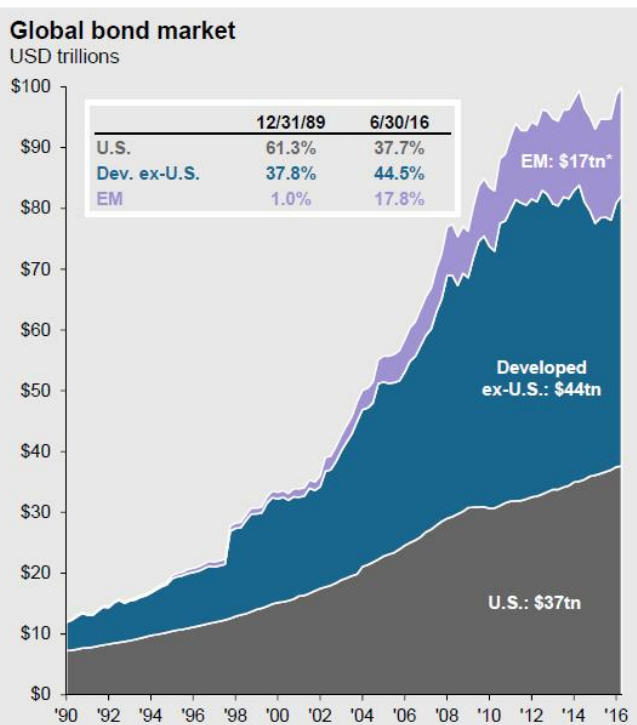
And it's not just stocks:



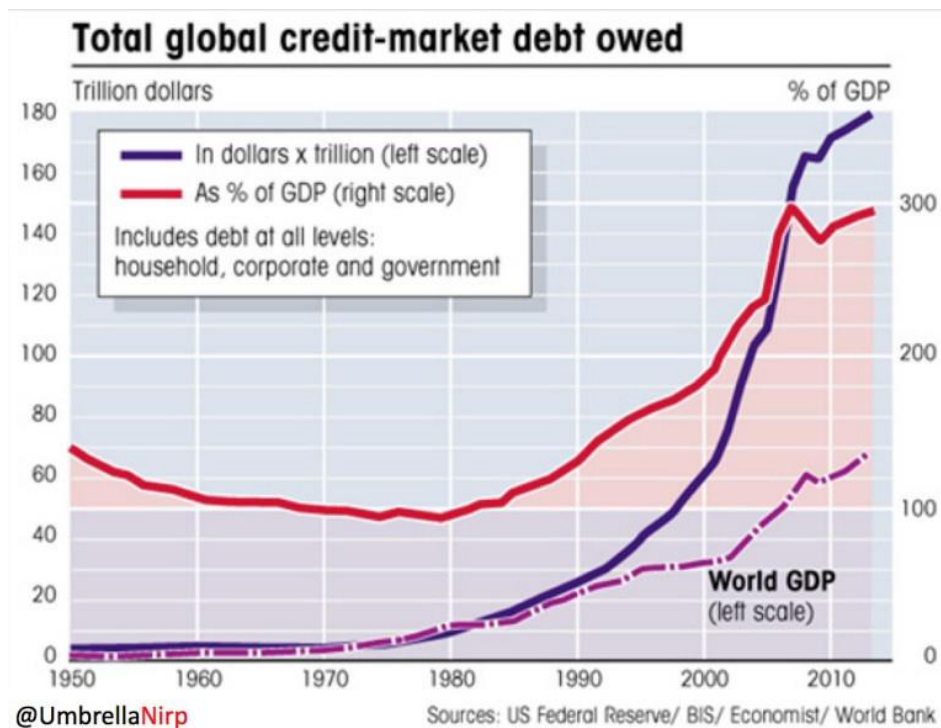


3) Debt is, perhaps, the most overvalued asset class, currently and arguably of all time.

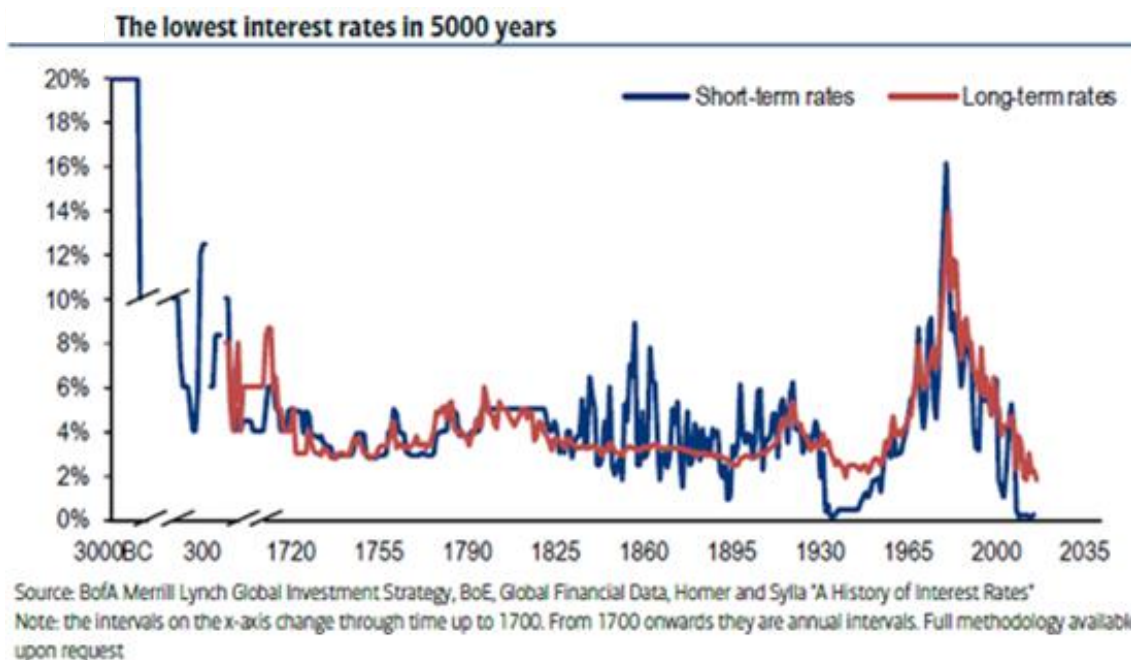
Aggregates	Correl to 10-year	Duration	Yield		2016 Return	
			12/30/2016	9/30/2016	Local	USD
U.S.	0.91	5.9 years	2.61%	1.96%	2.65%	2.65%
Gbl. ex-U.S.	0.23	7.5	0.99%	0.67%	-	1.85%
Japan	0.52	9.0	0.16%	0.00%	2.96%	6.20%
Germany	-0.03	6.1	0.32%	0.09%	3.36%	0.36%
UK	0.19	10.0	1.50%	1.21%	13.13%	-5.16%
Italy	-0.16	6.7	1.15%	0.79%	1.02%	-1.91%
Spain	-0.15	6.5	0.85%	0.53%	3.97%	0.95%
Sector						
Euro Corp.	0.25	5.3 years	0.87%	0.66%	4.73%	1.69%
Euro HY	-0.24	4.1	4.13%	4.29%	6.48%	3.38%
EMD (\$)	0.25	6.5	5.79%	4.98%	-	10.15%
EMD (LCL)	0.04	4.9	6.79%	6.18%	9.35%	9.94%
EM Corp.	0.14	5.6	5.05%	4.56%	-	9.65%



Source: zero hedge

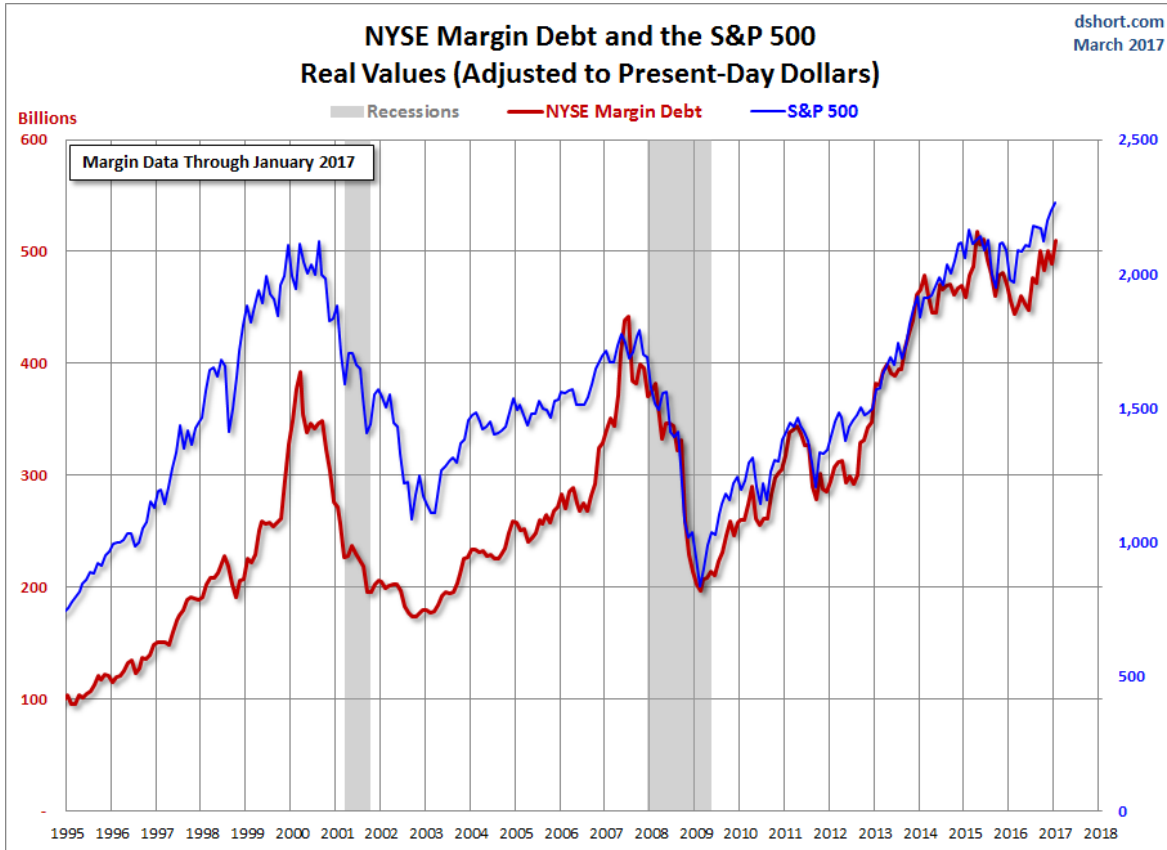


Yet, despite the proliferation of debt and the higher likelihood of eventual default, interest rates are just bouncing off of the lowest levels of all time. Perverse, to say the least.





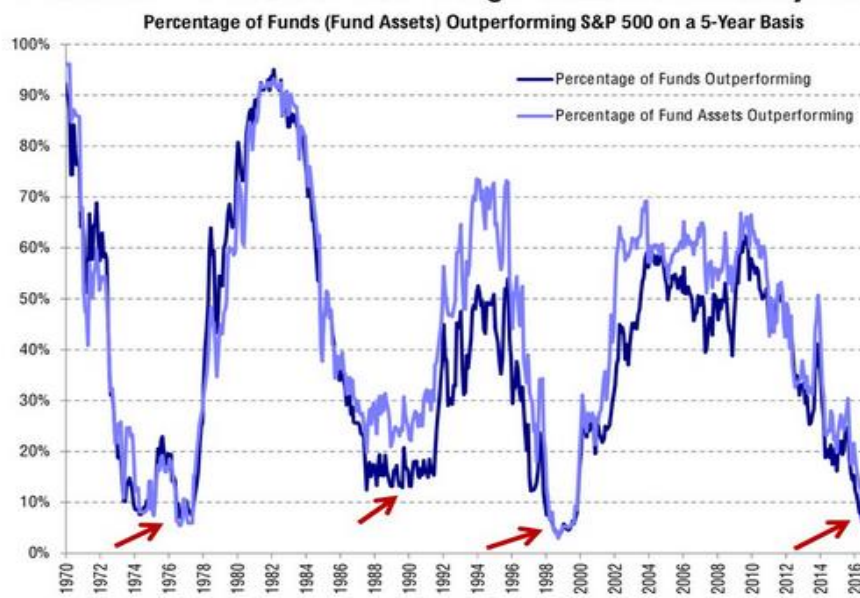
4) While student debt and subprime auto debt are at breath-taking levels, margin debt should not be overlooked.





5) Passive investing is a bull market phenomenon, specifically a late bull market phenomenon

We Have Been Here Before – Each Trough Has Been Followed by Recovery



Note: For details, see Fig. 1 on page 2. Source: CRSP, Bloomberg, Robert Shiller data, Instinet research

6) True risk soars as people: invest at high valuations; invest without performing rigorous (or any) due diligence, such as bottom-up, fundamental analysis/research; increasingly mistake statistical jargon as a measure of risk. This is what Howard Marks refers to as physics envy. For example, many in the industry view measures of volatility in the past, such as Beta and Standard Deviation, as risk. They also view implied volatility as risk. To repeat, people's *expectation* of *temporary* gains and losses are viewed as a measure of the likelihood of *permanent loss* of capital (real risk). Perhaps even more misguided, tracking error is accepted as a measure of risk. They are confusing the fact that a portfolio's *past* returns were not in line with that of an index of *unanalyzed* companies, compiled *without regard to valuation or investment merit*, as a reliable indicator of *permanent* loss of capital in the future. It is considered just as risky to be different from a very overpriced index than to differ from an inexpensive index; in reality even more so. Tracking error is featured more at market tops than bottoms.

The encyclopedia doesn't define risk as a statistical number. It defines risk as...

RISK (noun) RISKS (plural noun)

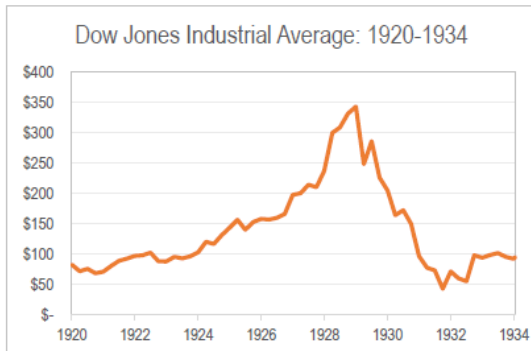
1. a situation involving exposure to danger

So what happens when a portfolio is exposed to the danger of expensive stocks? To unrealistic expectations? What happens to markets that proverbially get too close to the sun?

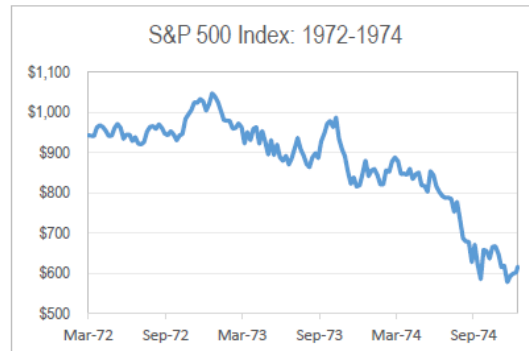
Let's look at times in the past when markets were valued at levels close to those we see currently.

Kopernik

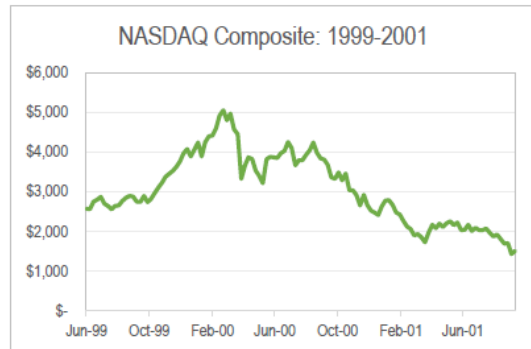
Global Investors, LLC



1929 STOCK MARKET CRASH



1972 STOCK MARKET CRASH



1999 STOCK MARKET CRASH



2007 STOCK MARKET CRASH

*"Thunder, thunder, thunder, thunder
I was caught
In the middle of a railroad track
I looked round
And I knew there was no turning back
My mind raced
And I thought what could I do
And I knew
There was no help, no help from you"*

-AC/DC

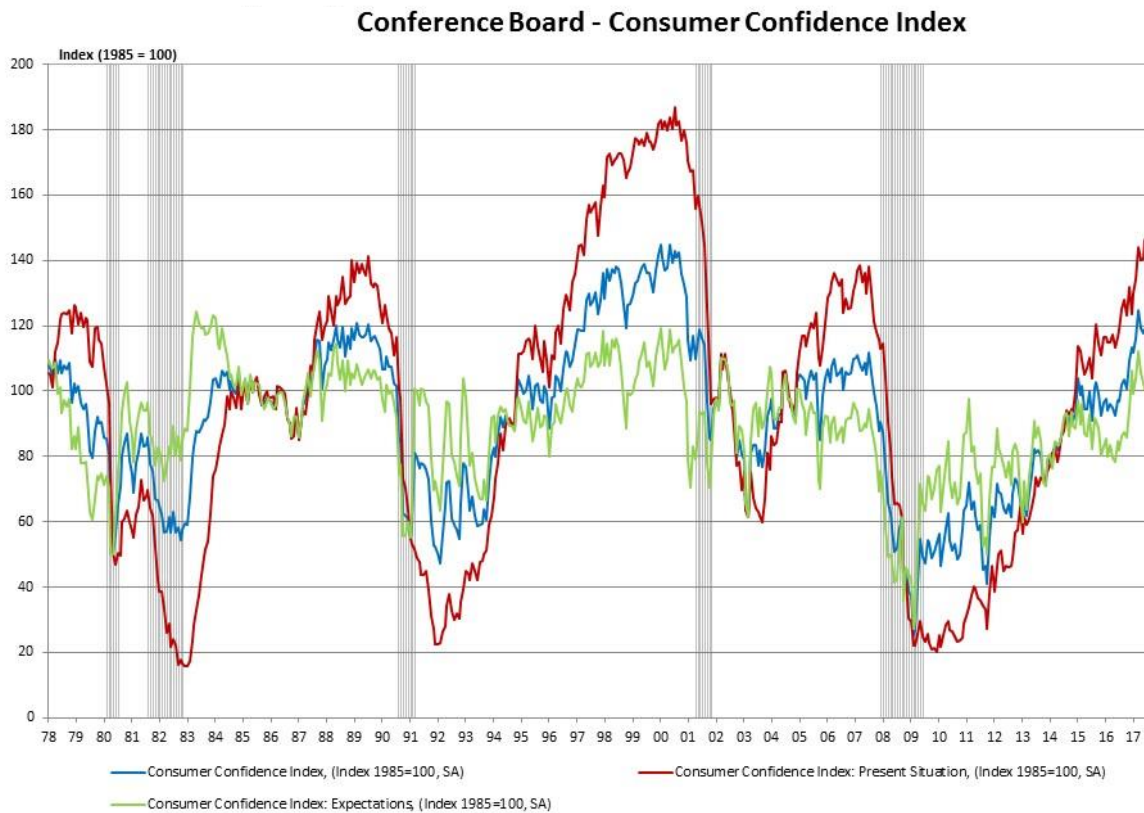




And yet no one perceives danger:

“Harvey/Irma/Maria cause human suffering and hundreds of billions of losses consuming funds that could have gone to productive infrastructure, more chaos in Washington with private servers, another health care loss, a transparent tax bill which is for the most part unworkable, Tom Price, Trump fails in Alabama, North Korea materially worse, Catalonia disruption, mass shooting and so DOW RISES 1000 points relentlessly and gold collapses.” –High Tech Strategist, Fred Hickey, quoting another.

Investors and consumers alike seem to be unfazed by current events. In the past, it was perilous to “stay on the train” when consumers were this ebullient.





Navigating an environment where risk is abnormally high

“But all the towns and people seem, to fade into a bad dream
And the steel rail still ain't heard the news
The conductor sings his songs again, the passengers will please refrain
This train got the disappearing railroad blues”

-City of New Orleans, Arlo Guthrie (written by Steve Goodman)

Tom Petruno wrote an article for the L.A. Times years ago in which he posed an interesting question. It was along the following line: “You’re on a train, taking the vacation of a lifetime, enjoying it thoroughly. You are informed that somewhere ahead, a bridge has fallen and the train will crash. Expert opinion is that the problem is 4 or 5 days ahead. Do you enjoy your dream vacation for 2 or 3 more days or do you get off of the train?” The ride is quite enjoyable and Keynes pointed out that “in the long-run we’re all dead.”

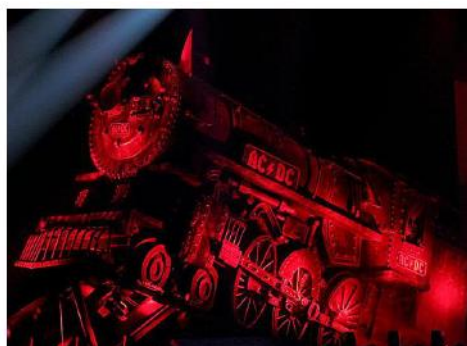
Here, in December 2017, the stock market is increasingly behaving like a runaway train. It’s been a lot of fun and highly enriching for many. The ETF train in particular is really rockin’. It quite possibly will go on for a bit longer and chug higher. It has been doing so at an accelerating pace. But it will crash. It goes without saying that cycles haven’t been eliminated, mathematical principles still rule the day, and humans are still emotional beings. We have already established that risk is soaring as people 1) invest at high levels of valuation, 2) invest without performing rigorous bottom-up research/analysis, 3) increasingly mistake statistical jargon as being a measure of risk. So, to reframe Mr. Petruno’s question for those enjoying their ride on the popular ETFs and index related products in the contemporary market environment, the Clash ask it best: “Should I stay or should I go now? If I go there will be trouble, and if I stay it will be double.”

You can anticipate Kopernik’s advice. **Passive investing is a bull-market phenomenon** as is its cousin **Tracking Error**. If indexation is normal behavior and riding the momentum of an out-of-control market is considered prudent, then we’re following Ozzie’s advice and “going off the rails.” But not so fast, you might say. Thanks to the kind folks providing us with ETFs and index funds, management fees are cheap. We counter that even if the ticket prices on Mr. Petruno’s analogue train are fully refunded, it doesn’t change a thing. Jump off of this ‘crazy train’ before it’s too late. But wait, there’s more. We are told that the Federal Reserve assuredly will have the bridge fixed before the train gets there. If not, they have an exit strategy that will save us all. We say, when a politician says ‘trust me,’ we’re jumping off of the train that much faster. When momentum launches prices to levels such as the current ones, it has never ended well. The following two charts attest to this point.

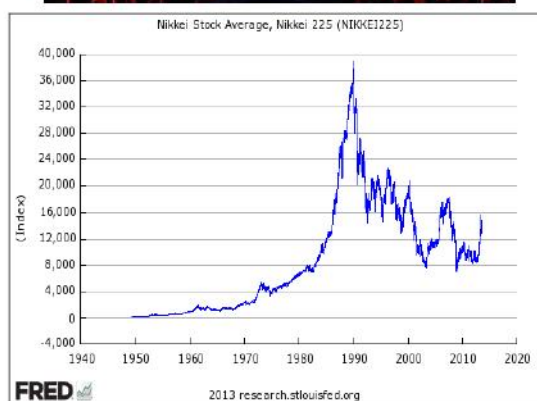


"IF THE TRACK IS TOUGH AND
THE HILL IS ROUGH,
THINKING YOU CAN JUST
AIN'T ENOUGH!"

– Shel Silverstein



1929 Stock Market Crash



Japan Stock Market Crash

Investment Strategy

Okay. What if passive management and ETFs do portend more risk than potential? And if the 'deadly sin' of failing to track these vehicles is, in reality, a virtue? Jump the train, into the wilderness with no prospects? The alternatives are arguably worse. Even the more foolishly priced stocks appear to offer more long-term value than cash. And cash seems to offer more value than art, which probably is worth more than bonds, which in turn must be intrinsically worth more than bitcoin. We won't argue with any of this line of thought. And, we're aware that the world is chock full of people who criticize the establishment of the day without offering up a viable alternative. We don't intend to be one of them. Criticizing is easy. Solutions are hard. Once you're off the train, then what? Was the train a TINA (there is no alternative) situation?

Sticking with the train theme, let's turn to Roger Miller for some **solutions**:

*"I smoke old stogies I have found
Short but not too big around
I'm a man of means by no means
King of the road
I know every engineer on every train
All of the children and all of their names
And every handout in every town
And every lock that ain't locked when no one's around"*

Gleaning solutions from a song about a hobo? At this point you may be thinking we have literally gone off the rails. Bear with us. Let's start with the concept of 'cigar butt' investing. Buffett has been known to trash the concept of cigar butt investing, a strategy which he had learned from his famed mentor, Ben Graham, and employed successfully for many years before evolving to 'franchise' investing, buying good businesses that are surrounded by a figurative moat. Read his 1989 letter for more.

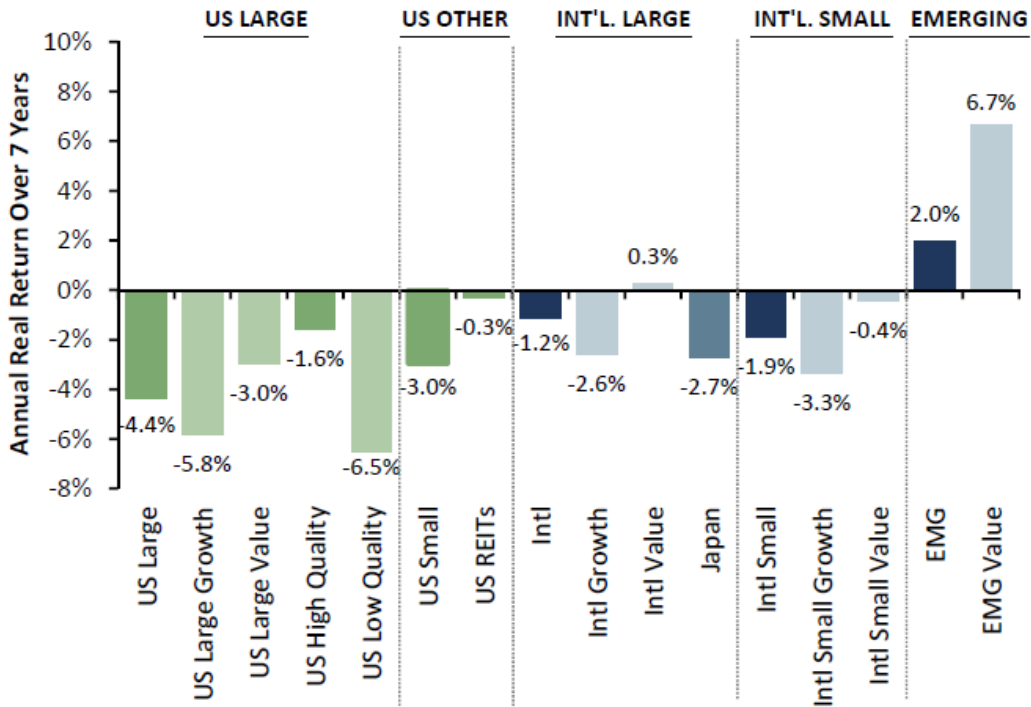


If Mr. Buffett says moat investing is best, I won't fault those of you who choose to accept the premise and move on. However, we'd like to make these points: it is often advisable to watch what Warren does as opposed to what he says; and secondly, a theme that we are admittedly beating to death in recent commentaries and presentations is that **the world is cyclical – to everything there is a season**. Whether it was options, derivatives, debt, junk bonds, 'whitemail', or international investing, Buffett has not let his previous comments interfere with making great investments. He wasn't owning the moat stocks (known as the Nifty-Fifty) when they were pricey in the late 60s and early 70s. Thus, he avoided their inevitable descent from 1972 through 1982. Cigar butt investing worked really well for him in the 1960s, but by the early 80s, everyone was a Graham and Dodd devotee while the stocks of great franchises languished. That is when he switched to moat stocks. With hindsight, 1929, 1972, and 1999 were wonderful times to sell one's growth stocks and moat stocks and buy the value laden 'cigar butts' of the world. With foresight, let us suggest that 2017 will go down in history as another **fortuitous time to transition out of growth and moat into value stocks**. A final thought before moving on to the case for global investing. Mr. Buffett has rightfully stated that "time is the friend of the wonderful business and the enemy of the mediocre." As Kopernik has pointed out in recent commentaries, most notably in 'Time in a Bottle' (available on our website or on request), the world's central banks have seriously damaged the market's ability to price time, suppressing the value normally accorded to time. At current interest rates, it seems clear that time isn't too unkind to deeply discounted assets (a potential double is worth the wait even if it takes a number of years), but time will eventually expose the policy induced malinvestment taking place and will punish the folly of investment in expensive and/or unsustainable cash-flow streams.

"King of the Road?" With the U.S. markets at historically high levels and at record valuations versus history and relative to virtually all of the world's other markets, Kopernik suggests that now is an opportune time to hit the road. Bargains are out there, especially north of the 49th parallel (45th in the Northeast) in the Americas. Japan still has much to offer and Emerging Markets still represent half of the world's economies at a tenth of the price. In our last commentary – 'The Weight of the Wait' – significant time was devoted to Jeremy Grantham's wonderful and thought-provoking piece suggesting evidence for a semi-permanent higher plateau for the stock market. We agreed with most of his analysis yet suspect a very different outcome. We proposed that what really mattered was GMO's conclusion, and ours as well, that under either **scenario international stocks can be expected to outperform U.S. stocks, and that emerging markets will likely outperform handily**. The following chart illustrates the magnitude better than words can. He suggests that anyone who is willing to put the clients' interests ahead of their own career risk/business concerns should put a large portion of the portfolio in EM stocks.



7-Year Global Real Return Equity Forecasts*



As of 10/31/17

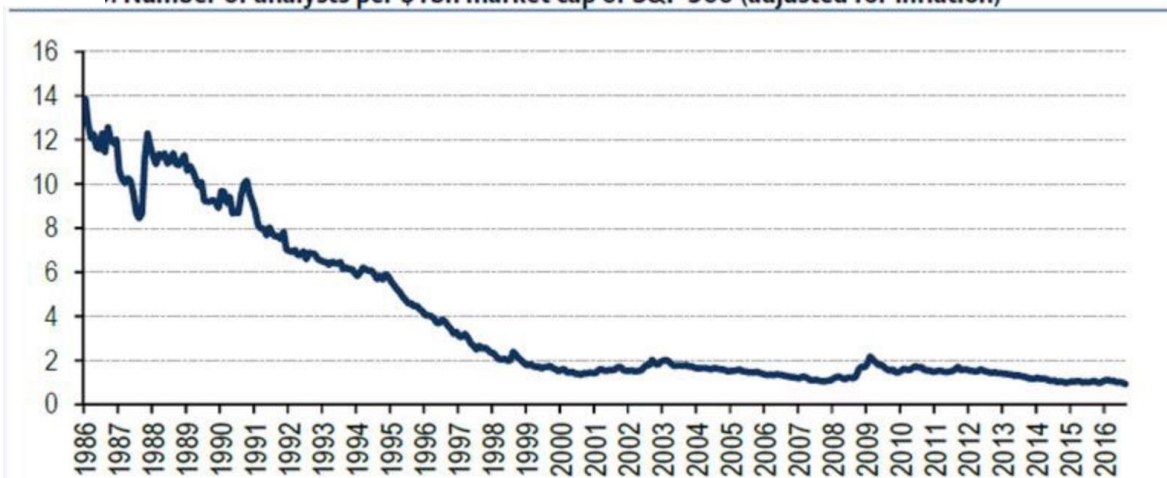
Source: GMO

*The chart represents local, real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

“Know every engineer on every train....” Kopernik’s most important advice for investors is to **perform due diligence!** Know the businesses you own and the valuation that you are paying. This is always requisite for us, but several well-known investors have recently pointed out the irony that the more people chose to invest passively, the less efficient the market becomes. Active managers always look feeble precisely when their future prospects are brightest. Graham and Dodd, in the aftermath of the collapse of the 1920s bubble, wrote that in a mania it isn’t helpful to perform due diligence and analysis. They went on to suggest that it was, in fact, actually harmful to one’s career since a reasoned analysis would argue strongly against buying the very ‘shooting stars’ that had to be owned to keep up with the competition. This introduces the concept of ‘career risk’ which is wonderfully addressed in the aforementioned Q3 letter from Jeremy Grantham. We highly recommend that you read his entire commentary – “Career Risk and Stalin’s Pension Fund: Investing in a World of Overpriced Assets.” The opportunity to “arbitrage” between career risk and portfolio risk is exceptionally large now, creating massive potential for those investors willing to put return prospects ahead of personal career concerns.



l: Number of analysts per \$1bn market cap of S&P 500 (adjusted for inflation)



Source: FactSet, BofA Merrill Lynch US Equity & US Quant Strategy

Source: Grant Williams' TTMVGH

It is clear that we are into a well-advanced momentum market. As our metaphorical runaway train gathers speed, the evidence that a historically small percentage of investors are still performing due diligence, on the stocks they own, is abundant. See our commentary *The Passenger* amongst other sources addressing this important issue. For now, the above chart should suffice. The advantage of active management is largest at times like now when a relatively small percentage of money coming into the market is price aware. Massive amounts of market distorting funds are pouring in without any efforts toward price discovery. This includes many ETFs, index funds, 'closet index' funds, many quant funds and other trend followers, and central bankers, notably the Bank of Japan and the Swiss National Bank. While the stocks favored by these price-agnostic buyers are extremely expensive, hard work and diligent research and analysis can uncover many bargains that they've left behind. For examples, please refer back to the leadership companies illustrated on page six.

"And every lock that ain't locked when no one's around." Can bitcoin be hacked? Seems so. It's happened. The price went up on news of this month's hack and loss of money. And some say that bubbles can't be identified before they burst. Another pertinent question: can the algorithms and associated mysterious sponsors be trusted to keep the supply constrained in the future or will they do what interested parties have done 100% for the time in the past when faced with the temptation to conjure new 'money' out of thin air? Hint: over 1200 (and counting) crypto-currencies have already been created from nothing. Gold cannot be conjured. It is currently heavily discounted on Wall Street. Those who still believe in things tangible should be very interested. We are.

John Templeton believed that the four most dangerous words in the English language were "this time is different." Values excesses, like we currently see in many asset classes, have always lead to heartache. This isn't the movies, this is real life. **This seems like a compelling time to move at least some of your wealth off the train.** We believe it would be logical to redirect it into assets that aren't highly correlated to the popular stock and bond indices. The bargains are out there, on the road less traveled.

We wish you all Happy Holidays and a healthy, prosperous New Year!

Cheers,

David B. Iben, CFA
Chief Investment Officer
Kopernik Global Investors
December 2017

(Postscript follows)



PS - In a nutshell, our message continues to be that the world is cyclical; what goes up, must come down; too much of a good thing becomes a bad thing; periods of excess are followed by dearth; etcetera. We've tried to be persuasive in the argument that this is a particularly perilous time to be riding with the herd, due to excesses in valuations and in reckless behavior. Not discussed is the deleterious effects that the abrogation of due diligence responsibilities, that is integral to passive investing, is having on society at large. Rather than doing so, let's reintroduce you to Grant Williams, the author of Things That Make You Go Hmmm (TTYMGH), and co-founder of Real Vision Television. His coverage of the investment world is unique and thought-provoking. Real Vision interviews and his biweekly TTYMGH are highly valued at Kopernik. As pertains to the topic at hand, his July missive entitled Passive Regressive, and its sequel Part 2, published the following month, are well worth the read. In addition to views on the folly of mindless investment, you'll be exposed to John Bogle's view that he "created a monster" that is being shamelessly used for marketing and speculation, Sanford Bernstein's provocative and worthy of note article arguing that the current form of 'capitalism' (with passive capital markets) is worse than Marxism (with functional capitalism being resoundingly better), a discussion of the very dangerous approval of ETFs that are levered **four** times, Noah Smith's Calvin and Hobbes analogue that approximates our Petruno discussion, Steve Bregman's compelling examples of the degree of lunacy currently on display in the ETF market, Jared Dillian's startling chart highlighting the lack of volatility in the stock market, Merrill's discussion of why the rise of ETFs is "making the world a more dangerous place," an chart documenting vanguards over-ownership (editors word) of the S&P 500, 13-D research's (another favorite of ours) discussion of "the Incredible Shrinking Universe of U.S. Stocks, a brief on the contribution of ETFs to flash crashes, Howard Marks' always brilliant thoughts –here directed at the gross misperceptions surrounding ETFs, Paul Singer's belief that "passive investing is in danger of devouring capitalism," and so much more. How's that for a sentence? These topics are woven into an entertaining, compelling, logic and frightening narrative. (info@ttymygh.com)



Important Information and Disclosures

The information presented herein is confidential and proprietary to Kopernik Global Investors, LLC. This material is not to be reproduced in whole or in part or used for any purpose except as authorized by Kopernik Global Investors, LLC. This material is 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.

This letter may contain forward-looking statements. Use of words such as "believe", "intend", "expect", "anticipate", "project", "estimate", "predict", "is confident", "has confidence" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not historical facts and are based on current observations, beliefs, assumptions, expectations, estimates, and projections. Forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. As a result, actual results could differ materially from those expressed, implied or forecasted in the forward-looking statements.

Please consider all risks carefully before investing. Investments in a Kopernik Fund are subject to certain risks such as market, investment style, interest rate, deflation, and illiquidity risk. Investments in small and mid-capitalization companies also involve greater risk and portfolio price volatility than investments in larger capitalization stocks. Investing in non-U.S. markets, including emerging and frontier markets, involves certain additional risks, including potential currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, less liquidity, less disclosure, and the potential for market volatility, expropriation, confiscatory taxation, and social, economic and political instability. Investments in energy and natural resources companies are especially affected by developments in the commodities markets, the supply of and demand for specific resources, raw materials, products and services, the price of oil and gas, exploration and production spending, government regulation, economic conditions, international political developments, energy conservation efforts and the success of exploration projects.

Investing involves risk, including possible loss of principal. There can be no assurance that a fund will achieve its stated objectives. Equity funds are subject generally to market, market sector, market liquidity, issuer, and investment style risks, among other factors, to varying degrees, all of which are more fully described in the fund's prospectus. Investments in foreign securities may underperform and may be more volatile than comparable U.S. securities because of the risks involving foreign economies and markets, foreign political systems, foreign regulatory standards, foreign currencies and taxes. Investments in foreign and emerging markets present additional risks, such as increased volatility and lower trading volume.

The holdings discussed in this piece should not be considered recommendations to purchase or sell a particular security. It should not be assumed that securities bought or sold in the future will be profitable or will equal the performance of the securities in this portfolio. Current and future portfolio holdings are subject to risk.

To determine if a Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Fund offering materials, which may be obtained by contacting your investment professional or calling Kopernik Fund at 1-855-887-4KGI (4544). Read the offering materials carefully before investing or sending money. Check with your investment professional to determine if a Fund is available for sale within their firm. Not all funds are available for sale at all firms.