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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Waiting for the Market to Have a Vastly Different Opinion

DAVID IBEN, CFA, is the Chief Investment Officer of Kopernik Global Investors, LLC and is the sole Portfolio Manager of the Global All-Cap strategy, Lead Portfolio Manager of the Kopernik Global Unconstrained strategy and Co-Portfolio Manager of the Kopernik Global Long-Term Opportunities and Kopernik International strategies. He is the managing member, Founder and Chairman of the board of governors of Kopernik Global Investors. Prior to Kopernik, Mr. Iben managed the $2.7 billion Global Value Long/Short Equity portfolio at Vinik Asset Management, where he was a director and head of the global value team from July 2012 through March 2013. Prior to this, Mr. Iben was Lead Portfolio Manager, Co-Founder, Chief Investment Officer, Co-President and Manager of Tradewinds Global Investors, LLC, a $38 billion — at February 2012 — investment firm. He continually managed equity portfolios for Tradewinds — inclusive of its two predecessor firms — from October 1998 through February 2012. He was the Portfolio Manager for the firm's Global All-Cap strategy, North American All-Cap strategy and Global Long/Short strategy, directly managing more than $20 billion assets at the time of his departure. As CIO, Mr. Iben directed Tradewinds' investment activities, including portfolio management, research, trading and risk management. From 1996 through 1998, Mr. Iben was a senior portfolio manager at Cramblit & Carney. He began his career with Farmers Group, Inc., where over the course of 14 years, he worked his way up from Securities Analyst/Trader to Portfolio Manager and eventually to Director of Research and Lead Portfolio Manager for both equity and fixed income strategies. At the time of his departure in 1996, Mr. Iben was acting as Farmers' Chief Investment Officer, responsible for $16 billion of investable assets. Mr. Iben earned his bachelor's degree from the University of California, Davis, and his MBA from the University of Southern California Marshall School of Business.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the firm?

Mr. Iben: Certainly. We are a globally focused public equity investor. We philosophically believe the market doesn't always get things right. And our job is to appraise businesses and wait for those opportunities within the market, which happen when a lot of people, as part of the crowd, collectively come up with their own appraisal, and we wait for them to have a different opinion than we do. When they have a vastly different opinion, that's when we have a lot of opportunities. And if we can be right a lot more often than wrong, that works out very well.

We have a dozen full-time research staff that are divided along industries. And we try to understand the industries, the supply and demand, the barriers, the key drivers and the best way to value those businesses. Once we come up with those values, we risk adjust and, as I said earlier, then wait for the market to have a vastly different opinion.

TWST: And is there a unique investment philosophy with the different funds?

Mr. Iben: We have a global all-cap fund — that is the vast majority of the money we have — but we also have an internationally focused fund, and we have a long/short fund. But they have the same philosophy, same process, same people, same approved list for that matter.

TWST: What is the philosophy?

Mr. Iben: Philosophically, people view us as value, which we are fine with, although we don't view value or growth as philosophies. We view value as fundamental to investing and growth as a positive attribute that increases the fundamental value. So I would say we view ourselves as long-term owners of businesses. And it's a prerequisite for us to buy things for less than we think they're worth. So we're viewed as value.

TWST: And is there a unique audience for some of these funds, or is it pretty diverse?

Mr. Iben: We are pretty diverse. We have mutual funds, and then we have LPs and separate accounts, where we have endowments, institutions and family offices. So it's pretty diverse.

TWST: And you have retail investors too?

Mr. Iben: Yes.

TWST: And maybe we could talk about one of the stocks that you find interesting right now and then we can move to the next one?

Mr. Iben: Certainly. As a backdrop, as value-focused, and given that people are coming up with their own appraisals and waiting for the market to have different opinions, we like those times like now, times when we think the market is exceptionally inefficient, more emotional than usual. Especially when it's bifurcated, when they love some things too much and other things they dislike too much.

It was very similar in 1999 and 2000, when people had an unrealistic love for technology and unrealistic dislike for bricks-and-mortar, old economy, small cap and those sort of things. So here we are again, where people, I think, are really too excited about what admittedly are good companies, whether it's tech or quality franchises. If they're good, they're worth a lot, but they are not worth anywhere near what people are paying for them.

The other side of bifurcation is: People do not like uncertainty, and they demand a large discount for it. So that allows us to arbitrage that. We are able to buy really good companies that people dislike because of the industry they are in or because of the country they are in — that sort of thing. And so that's one.

And another is, people are so in love with perceived certainty that if you give them certainty on a 10-year basis, they will accept guaranteed loss on a Swiss bond. They take a negligible return on Japanese bonds. It's positive by 0.1. In the U.S., the 10-year bond is less than 3%, the 30-year bond is barely above 3%. So I guess people love certainty so much that they will accept that. But if you tell them they are highly likely to triple their money, it just might take a few years, they have no interest in that. So we are able to arbitrage that.

So I will come up with a couple of names that highlight that. Let's start with discounts based upon biases toward countries. Let's start with Korea telecom **KT Corp.** (NYSE:KT). In 1999, phone companies were selling at very expensive levels. Since then, in a lot of the developed world, they've become fairly expensive again. In the U.S., there are some pretty high multiples for phone companies, yet in Korea, people are using the philosophy that returns have been low for a long time, therefore, they always will be low. We like hearing that because we think that over the long run, fundamentals do win out. As Graham said, in the short term, it's a voting machine; long term, it's a weighing machine.

Highlights

David Iben discusses Kopernik Global Investors, LLC. Mr. Iben is a globally focused investor. He believes the market doesn't always get things right and that it is his job to wait for opportunities within the market. While people may view the firm as having a value philosophy, Mr. Iben notes that he views the firm as a long-term owner of businesses. Mr. Iben likes the current environment, where the market is exceptionally inefficient and more emotional than usual. Because people dislike the uncertainty of particular industries or countries, Mr. Iben has the opportunity to buy really good companies.

Companies discussed: KT Corp. (ADR) (NYSE:KT); AT&T (NYSE:T); Newcrest Mining Ltd. (ADR) (OTCMKTS:NCMGY); Cameco Corp. (NYSE:CCJ); Gazprom PAO (EDR) (OTCMKTS:OGZPY) and Exxon Mobil Corporation (NYSE:XOM).

TWST: And basically, the phone companies of today are very different than phone companies in the 1970s or even the 1980s. They are involved in much more than the old AT&T (NYSE:T), right?

Mr. Iben: Right. Back then, they had regulated businesses, and they became more deregulated and became very fast growth in the 1990s as more and more data was moved through because of technology and deregulation. The business, as to your point, is a business that's pretty integral to our lives, and moving data — the backbone of the internet — is a decent business.

TWST: And did you want to mention another company?

Mr. Iben: Sure. Let's go with the other end of the spectrum, companies that don't have tons of cash flow right now, that are likely to be worth way more than they are selling it in the future. We can start with a gold company, then move on to a uranium company if we have time. But we find gold companies interesting. For starters, the stocks are down so much that you don't even particularly have to like gold to like gold mining companies. And I think that's because most people, even those who do like gold, don't like gold mining companies. It's been a tough place to be over the last seven years.

Last seven years and even 10 years, the price of gold has gone nowhere. It was $1,200; now, it's $1,200. During that period, it got as high as $1,900 and as low as $1,050. But over a long period, it's gone nowhere. During that time period, the price of gold miners, as represented by the indexes, is down two-thirds. If you look at the index of smaller miners, it's down over 80%.

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Fundamentally, **KT** is part of a triopoly. It's a good company with a sizable market share. And it is trading now at 15 times trailing earnings, 10 times what's expected for five months from now. So if people are right about that, that's a 10% earned yield. In an environment where people are taking 3% for the bonds, and we are talking 10% earned yield. On a trailing basis, it's more like a 7% earned yield. On a free cash flow basis, because of depreciation and other things and having finished with a lot of their capital spending, we are talking of a 20% free cash flow yield. And the gross cash flow is very high. So it's a pretty good yield for a company that, though it's not growing, is able to make a 10% return. A very good company with good fundamentals.

Now, we like to look at different ways of valuing things. So when we see that this thing is also barely over half of book value and that most of that book value is tangible — so it's less than two-thirds of tangible book value — that helps us feel good. So we've got a good oligopoly structure, trading at a big discount of book value that is generating earnings, is generating cash. And we think it's mispriced because people, right now, are not really wanting to get involved with emerging markets.

So gold miners are companies that own gold in the ground, yet while the price of gold is the same, these companies that own gold have seen the value of their stocks drop 80%. That's a pretty fascinating thing. So to put that into more meaningful terms: What should these things be worth?

Let's start with **Newcrest** (OTCMKTS:NCMGY). It is an Australian company, and one of the biggest and, arguably, one of the best companies in the world. They have 61 million ounces of gold. One of the beautiful things about gold is that they don't make it anymore, as they say. People aren't even finding it anymore. There have not been a lot of major finds in recent decades. So it's getting harder and harder to find. We've tended to focus on the companies that have already found it. We tend to own companies that already have big reserves.

If you look at the 61 million ounces that **Newcrest** owns, if they can make merely $250 of profit per ounce, that exceeds the current valuation of the entire company. So we like it when things are so cheap that you are likely to make a 25% return even if the price goes nowhere. In other words, liquidation value is 25% above the current stock price. Also, there's an addition of 50 million ounces of resource — gold that they own that will become economic at somewhat higher prices. Also, there's 50 billion pounds of copper — additional resource of 32 billion pounds. That's all additional upside. The liquidation value is worth more than the selling price, and there are all these other assets that might make them worth more, a lot more than that. That's assuming that the price of gold doesn't go up.

Like I say, you can like gold miners even if you don't like the price of gold. There are many reasons to like gold. Scarcity has been touched on already. Gold, like almost all commodities, has prices that are volatile. They get too high, and they get too low. But they always trend back to the incremental cost of future production.

1-Year Daily Chart of KT Corp. (ADR)

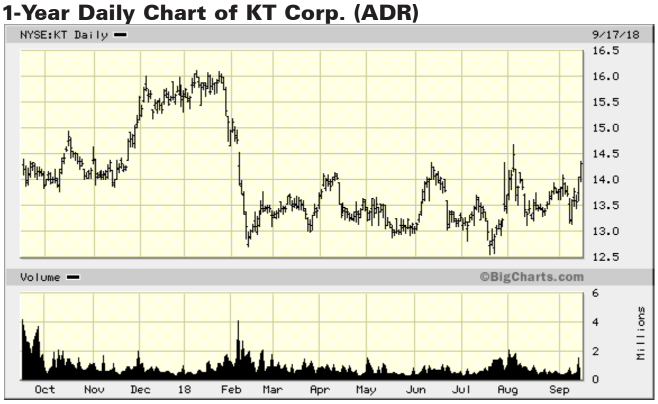

Chart provided by www.BigCharts.com

look at bitcoin with a decade of history, there are different advantages and disadvantages. As a medium of transaction, these currencies seem to be pretty good. Bitcoin is debatable. Some people view it as the future. It's way easier for transactions than gold and offers a nice ledger and record keeping. Others will point out that it's extremely expensive and can't really be used on small transactions at all. And of course, there have been hackings and other problems. Then, there's gold, which is kind of burdensome to carry around, not so good for transactions.

Store of value is a very, very important aspect of money. Fiat currency has a track record of having always failed. And even during my lifetime, the U.S. dollar lost 95%-plus of its purchasing power. The same is true for most other currencies. Bitcoin, as we've seen, fluctuates all over the place. It goes from $2,000 to $19,000 and then much lower again. That seems more of a speculation than a store of value. But they do claim to have a fixed supply, if that can be trusted. Maybe there's some value there. It remains to be seen, but we have our doubts.

But I imagine that bitcoin, if it were a threat to anything, would be a threat to the dollar, the euro and the yen. People wanting to replace the systems of currencies that people are using for transactions — where gold always has been and probably always will be a store of value. It's scarce. It's known. It's nobody's liability. It can't be hacked. It can't be defaulted upon. It has these sorts of important attributes. Gold is merely a store of value that, right now, is trading at roughly a third below what we think is the cost of extracting sustainable quantities from the ground. We feel pretty good about that. Bitcoin, who knows, we have our doubts. But in terms of ounces of gold versus the dollar, we are fairly certain that it's going to cost more dollars to buy gold in the future.

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At what price could you bring on enough supply to offset the depletion of existing reserves? The amount that would balance demand and supply in the future. Most people in the industry would require $2,000 per ounce. It may really only be $1,800 or may be as much as $2,200. We won't quibble with that. But it's highly likely that eventually the price gets somewhere in the neighborhood of $2,000 an ounce, and with that, then the expected upside for gold mining stocks is more like three times.

Additionally, gold has thousands of years of history of being money. Right now, people aren't looking at it that way. But the money supply in terms of dollars per ounce of gold, in the U.S., has gone from $400 an ounce 40 years ago to many thousands of dollars per ounce now. So there is a chance that this stock could be worth much more than we're giving them credit for — that it is worth more than three times its current valuation.

In dollar terms, **Newcrest** is selling for around $16 per share versus the value we're using of around $54. So tremendous possible upside for a company that has the largest reserve life of any of the major companies; it's got a 30-year reserve life. And it's got a decent cost of production. It's a big, well-run company with many years' worth of reserve and diversified reserves, with more than three times upside, if our analysis bears out.

TWST: Last year, there was a lot of interest in bitcoin and similar things. How does gold compare to that? The price of bitcoin went all over the place and gold, as you pointed out, was not moving that much. What would be the advantage of investing in some kind of gold stock?

Mr. Iben: Yes. If you look at money, whether that is gold with thousands of years of history or whether it's currency, like the dollar or the euro or the Japanese yen, which have hundreds of years of history, or you

TWST: And can investors basically sleep better at night knowing that they've got some gold in the portfolio? Is that one of its benefits?

Mr. Iben: Certainly. It's a store of value. So when times are really good, like they appear now, there's really no point to gold. But the world is a cyclical place. This should be obvious. With bitcoin, you have to worry about whether your account gets hacked or whether you've lost your password or other things. And with currencies, you have to worry about what we have seen in the last 10 years, where a lot of central banks have decided to start printing a bunch of currency out of thin air. Logically and empirically, they are destroying the purchasing power of their currencies. Holders of gold don't have to worry about that. So yes, gold is unexciting, but absolutely, people should sleep better at night.

TWST: And did you want to mention another company?

Mr. Iben: Sure. Let's go with **Cameco** (NYSE:CCJ). It's a Canadian company. It's the largest publicly traded producer of uranium in the world. Uranium is an interesting and misperceived — we think — commodity. People, over my career, have gone from hating it to loving it to once again hating it. When they hate it, the price gets too low. When they loved it, the price went from the teens to $137 per pound. That was too high a price.

At that kind of high price, Kazakhstan ramped up their production 10 times. All of that supply came on right about the same time that Fukushima brought demand down by causing the closing of Japanese reactors. This led to a huge increase in inventories. The big inventories and the drop in demand caused the price to drop from $137 to $18. Just as too-high prices led to too much production, too-low prices, which have been low for a long time, are now leading to a drop-off in production and a decrease in supply.

So you've seen over the last several years, Kazakhstan twice announced they cut back production. You've seen **Cameco** close what is probably the best mine in the history of the world, effectively saying we are not going to sell our assets at this price. You've seen investment funds pop up just to buy and hold the commodity, at a price that's way below the cost of future production. Even the Department of Energy decided to stop selling it. And a few years back, the Russians reached the end of a 20-year program of selling it.

People stopped production just as demand picks up. Japan is starting to bring some of their reactors back on. China is finally starting to complete some of the reactors that they've been working on. And they have plans to build 60 new reactors. So there will be more reactors in an environment where we already don't have enough mines to meet the demand from existing reactors.

1-Year Daily Chart of Cameco Corp.

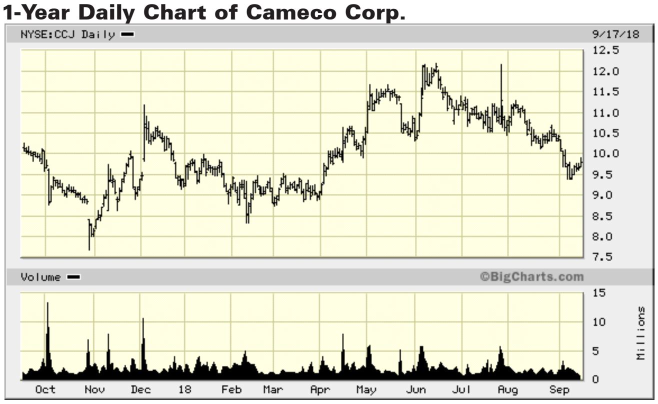

Chart provided by www.BigCharts.com

Fundamentals will require the price to go back up to the equilibrium price we talked about earlier, the price that would incentivize future production. That price is somewhere between $60 and $90 per pound, which we find pretty interesting, because at $60 per pound, it is our view that **Cameco**, which is currently trading at $11, will be worth $18. We risk adjust that down to $14. So around 30% upside. However, if the price gets to the higher end of that $60 to $90 range — keep in mind, the price was once $137 — $90 uranium will lead to **Cameco's** price being worth closer to $90. On a risk-adjusted basis, call it $70.

So the stock is worth a third more than it is selling for now. However, it could be worth eight times more than it is selling at now. This is amazing optionality. This global leader — they are a large owner and one of the better producers — is selling right around book value, just at 15% premium to book value. So once again, we have the likelihood of making a lot of money, but the timing is unknown.

TWST: And did you want to mention one final company?

Mr. Iben: Sure. That would be great. This is also a resource company, but this is one where we don't have to wait for the returns. They are making lots of money right now. And they are very cheap because people don't like Russia. That company is named **Gazprom** (OTCMKTS:OGZPY). They are far and away the largest gas producer on the planet. Their gas reserves are three times **Exxon's** (NYSE:XOM).

There are different ways of valuing this. It is a quarter of tangible book value. And it has 38 years' worth of reserves. It's trading at four times earnings. It's interesting that after paying a nice dividend, book value has grown for 16 straight years. This is a company that's earning its dividend and then some. So very, very cheap company. Now, it should be cheap; it's in Russia. But we always ask ourselves, if **Exxon** were to move their office to Russia, would we pay the same price? Absolutely not.

Should we require a 25% discount or 50% discount, 75%? Fifty percent is where we start getting interested. But if you look at this company on a book value basis, it's 75% discount to book value. If you look at barrel of oil reserve, most of the majors are in the neighborhood of $20 per barrel. This company is at less than $1, at $0.76 based on our calculation. More than a 95% discount on a barrel of oil. Nice cash flow, nice asset value, a dominant position of 38 years' worth of reserves, a location on the edge of Europe, who buys more and more gas from them every year, and building pipelines to China, presenting growth prospects for the future, and the whole time yielding over 5.5%.

TWST: And does this company have some potential risks if there are trade wars and those kinds of things going on, or is it in pretty solid shape?

Mr. Iben: Trade wars are probably not good for anybody, but this one is probably in pretty solid shape because they are not exporting their gas to the United States. The United States has plenty of gas. They are exporting it to Europe. Europe has been very much against any of the sanctions that would cut them off from their need for this gas. And the U.S. has generally gone along with this. So while nobody is free from uncertainty of current politics around the world, these are probably more immune than most. Europe needs the gas. China needs the gas.

TWST: Is there anything we didn't bring up that you care to mention, either about the firm or some of the trends out there that you are seeing?

Mr. Iben: I reiterate that we view this as one of the best times to be an active manager in the last century. It's right in line with 1972 and 1999, times where people were paying way too much for many stocks and, at the same time, selling things at way too low a price if it's unpopular. It's a great time to be investing in emerging markets, which is where the growth will be, where most of the people are, where most of the resources are. We like the fact that people are paying too much for certain cash flow but giving away scarce valuable resources. We don't have time, but we could go into agricultural properties, utilities — electric utilities and water utilities — and transportation — "semi-utilities." We mentioned phones a little bit. But meeting the needs of the population and doing so through scarce resources or oligopolistic franchises are really a great opportunity, and that's where we've been focusing.

TWST: Thank you. (ES)

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