Q3 2024 Conference Call Edited Transcript

Kopernik Global Investors, LLC

Edited Transcript of the 3rd Quarter 2024
Conference Call with Dave Iben and Alissa Corcoran

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Mary Bracy: Good afternoon, everyone. I'm Mary Bracy, Managing Editor of Investment Communications here at Kopernik. We're very pleased to have you join us for our third quarter 2024 investor conference call. As a reminder, today's call is being recorded. There will be a Q&A session at the end of today's call. At any point during the presentation, please type your question into the Q&A box and we will get to as many of them as we can. Now I will turn the call over to Mr. Kassim Gaffar who will provide a quick firm update.

Kassim Gaffar: Thank you, Mary. Welcome, everyone, to the third quarter 2024 conference call. With me, David Iben, our CIO and Lead Portfolio Manager for the Kopernik Global All-Cap Strategy and Co-PM for the International Strategy, and also Alissa Corcoran, our Deputy CIO, Co-PM for the Global All-Cap and International Strategies and Director of Research. Before I pass the call to Dave and Alissa, I'll be providing a quick firm update.

Overall firm assets during the quarter were slightly higher than the beginning of the year. We started the year at around 6 billion and entered the third quarter with roughly $6.3 billion in overall firm assets. Moving along, on the personnel side, we are now 45 employees strong and have had minimal turnover since inception of the firm over 11 years ago. We continue to bolster our research team with the addition of several new research associates during the year.

Also a few important housekeeping items. As we communicated during our last call and through subsequent emails, we are having the first-ever Super Terrific Happy Day Conference. Many of you probably know our friends Grant Williams and Stephanie Pomboy. Some of you have heard their podcast we've done with them before, and they always have a lot of thought-provoking topics. We're really pleased to be doing that. We have a lot of great speakers.

In addition to Stephanie, Grant, our own Dave and Alissa, many of you know Felix Zulauf who has been on the Barron's panel for several decades. We have Peter Atwater. We've been fortunate enough to have him speak at company events, and he has a lot of thoughts he's used in some previous presentations that you've seen, a lot of the behavioral economics and why markets get crazy like they are now.

Also, we always encourage people to hear the other side of the argument. When it comes to expressing alternative views to our own, nobody's better than Cathie Wood. We recommend people come to hear what she has to say. Bob Rodriguez, who we have known for a long period, he's always very thoughtful and has strong opinions, which he's willing to share. Also, we were fortunate enough to meet Sy Jacobs back at Grant's conference nearly four years ago. He's also one of the speakers, and we recommend people come and hear his thoughts.

Lastly, Sir Steven Wilkinson. Sir Steven is the founder and managing director of Good & Prosper, a private investment advisory company based in Ireland and active both in the US and Europe. Overall, a very exciting panel. Moving on, one last thing. The day before the event, we'll be having an investor day, a chance for all of you to come and meet all our analysts and everybody else at the firm, all senior management, and you're all welcome to join us. These events are on November 13th and 14th, so basically in two weeks.

Now, moving along back to the quarterly call, please note Dave and Alissa will be referring to the presentation, which can be found on our website kopernikglobal.com under the News & Views section. Also, whilst on the website, you can also access Dave's most recent commentary and several other new white papers. That brings us to the end on the business and housekeeping side. With that, I'll pass it over to Dave and Alissa. Dave, please go ahead.

Dave Iben: All right. Thanks, Kassim, and thanks to everybody for joining us. The market seems pretty lively lately, a good time for this. We also think a perfect time for the event that Kassim was just talking about, talking about common misperceptions. There seems to be a lot more common than usual right now, so we feel great to have a big cast around us to talk about such things. Anyhow, for today, a lot of people want to talk about either what should we make of gold being at new all-time highs and inflation. Is it dead? Is it endemic in the system? A lot to talk about, so let's talk about it.

By the way, this year is the 70th anniversary of the last time the CPI actually was negative in the U.S. on a December-over-December basis. Pretty fascinating. Anyhow, tongue in cheek, we'll start with, don't look here for inflation [slide 8]. Although here, should the stock market go up over time? Absolutely. Businesses create wealth. As the wealth is compounded, the stock market ought to go up, and it does. This chart does not show on its own what the stock market did.

We know the GDP's not perfect, but it's loosely indicative of the underlying fundamentals of the economy. This is showing what stocks have done relative to the underlying fundamentals. Since I've been in the business, this has gone up five times. Stocks have gone up five times faster than the underlying fundamentals. As we've talked about, inflation goes to different places at different times. Going with that, what is inflation? Just a reminder, it is an increase in the money supply. Great. There's been massive increases in the money supply.

We might add, as we have in the past, that deficit spending leads to increases in money supply, either immediately or kicked down the road by issuing debt first and printing the money later. Plenty of that's been happening. Marc Faber always puts things in a good way to understand. If you want to teach your kids, and we'll add grandkids too, to understand inflation, give them a $100 bond, frame it, and then let them watch what happens to the purchasing power of that $100 over the next 20 years [slide 9].

Certainly, we've seen, even in the last 20 years, when we've been told there's no inflation, we've seen what's happened to the cost of living. Anyhow, money supply goes up. It has gone up 1,200 times since the Fed was founded, financed a couple of major wars and a whole lot of other things. That's gone up a lot. As Cantillon said, it doesn't go to places equally, and it takes a long time to get there.

A couple of points to make here [slide 10]. One, the price of a lot of commodities, we show a few of them here, coffee, oil, copper, has gone up a lot, but nothing compared to the increase in money supply. Some of that's because of increases in technology and better ability to extract and produce things. Part of it is delay in how long it takes inflation to roll through the system. How much is one, how much is the other, time will tell.

Another point, you can see the stock market, it's gone up 600 times, but we all know about the miracles of compounding, so it's gone up much more, 24,000 times if you reinvest.

Wanted to point that out because we give numbers of farmland and other things. Farmland, gold, other things can be lent out, leased out, compounded, so it's actually done better than it shows here. We'll acknowledge that and still suggest that it's vastly lagged the rate of inflation. Last point, CPI, you can see it's almost a joke compared to what the actual increase of inflation has been. On that note, almost anybody we talk to seems to agree that their cost of living has gone up a lot more than the government admits to. There's this article but there's a whole lot more [slide 11].

With that in mind, let's talk about inflation. Is it good? Is it bad? Is it something that's really hard to rekindle or is it something that's really hard to get rid of once it's in the system? The opinions sway with the times. Let's start back with the 1970s. The 1970s was very different. Governments were concerned about inflation. They didn't want it. Why did they not want it? Because the public didn't want it. Of course, the government would call on the public to share in the pain. They had this Whip Inflation Now, people wore buttons and they were told, "Buy less gasoline. Do what you can to keep costs down."

A very different time. As the business went on, late '70s, early '80s, as I came into the business, they had not been able to contain the inflation. It got worse and worse. We were all told it's endemic to the system. It cannot be gotten rid of. Here's some of the reasons why they thought it could never be gotten rid of [slide 13]. It was bad. People didn't like it. They were having no success getting rid of it. It got so bad, people were finally so sick of it that they actually tolerated Paul Volcker's taking interest rates to 22%.

They accepted economic slowdown, higher unemployment, a lot of things. That's how badly they wanted inflation [to go down]. Accepting Paul Volcker, it's interesting. Grant's Interest Rate Observer's written some articles about the past and how central bankers, several of them were assassinated for raising interest rates. The public doesn't like higher interest rates and will only accept it well into the inflationary cycle. We're certainly not there yet.

Where are we now? We couldn't be further away from them, from where people will tolerate 22% rates. A few years ago, we had people tolerating zero interest rate on their savings. I don't think that's ever happened in written history that we were aware of. Some places actually had less than zero interest rates. That's an entirely different environment. People wanting inflation, desiring it, and accepted guaranteed loss on their savings. Yes, it is what it is. We've gotten to the point where people instead of saying whip inflation now, they seem to be saying, "Whip up inflation now, we want more of it."

[Jerome Powell] has recently redefined their 2% inflation target to a 2% floor on inflation, it sounds like. He's said it would be very dangerous to wait until inflation got down to 2%. It is what it is. Does it matter? If the average person lives 80 years, which is what I got off the internet, then a mere 1% inflation, prices will more than double in your lifetime. Their 2% target, prices will go up about five times. If you left something to your grandkids, the money will buy five times as much now as it will when they get the money [slide 16].

If we're willing to tolerate 2%, and actually we're afraid to go below that, and we're actually more comfortable with 3%, which you see plenty of people talking about, now we're talking more than a thousand times, then we're talking money now will buy 10 times more than it will buy 80 years from now. 5%, 2% will be the purchasing power of the money in today's terms. Although I'll say in the last 60 years from what I've seen, that's probably about what it's done. We probably have 2% of the purchasing power we did when I was young.

We will see, but it makes a big difference whether it's 1% or 2% or 3% or more. Maybe 1% is tolerable. We would go for zero ourselves. [Slide 17] Aren't they getting rid of inflation? Aren't they tightening? They're actually very clever. You've seen in recent years, you had the Chinese printing a lot of money way back, and then they stopped. Then, you had Ben Bernanke, the king of currency debasement, starting all the QE [quantitative easing] around the world.

When the U.S. backed up, you had, yes, Mario "Do whatever it takes" Draghi who really supercharged things there. Lately, you had Powell who synthesized $4 trillion out of thin air overnight back in 2020. Recently they seem to be handing the baton to the Chinese who are parroting Draghi. They seem to be saying they will do whatever it takes. Stay tuned. Anyhow, we can hear about tightening, but tightening never happens for very long. This is a short history, but you can look at long history [slide 18].

It never happens for a long period of time. We'll see how long that lasts in the U.S.T now. Anyhow, in the meantime, investors, all of Pavlov's dogs, they expect to see an increasing amount of money every time they pass go. With debt going ballistic, more debasement is certainly on the way. Since a few hours away from Halloween, we figured we should throw in one scary slide for you [slide 21]. That is $36 trillion that the government-- that's for every family in the US, we implicitly owe $417,000, and growing by the second.

Enough of the negatives, enough of the bad news. It is what it is. Let's make money. Yes, we can't control the waves, but we can learn to surf [slide 22]. We have been and will continue to make probably everybody sick of hearing about Richard Cantillon, but we think it's important. We think he's right. Inflation is what it is, but it is not neutral. It makes some things go up more and some things go up less, and some things go up early, other things much later. It's worth paying attention to. That's what we will continue to do.

Here we can see in a more recent than the earlier slide that's just showing 40 years [slide 23]. The money supply is up a lot. Gold only up a few times. Although the starting point is the top of the bubble in 1980. If you start it from 20 years later, then gold's up 10 times, so it's more than this seems. Before you all disconnect from this call, this is not a call about gold. We are done talking about gold. Sure, gold is arguably still way undervalued, but it's left a lot of other things in the dust.

Those of you that know Kopernik, they know we're looking at the things that have been left in the dust and looking for which ones have been left wrongly so. Gold's up. Great. What is poised to catch the next Cantillon wave? No better place to start than value investing. Throughout history, value's done best most of the time. There's been times like the late '60s and the late '90s where value was left in the dust. After that, it did really well for a really long time. After the '99 bust, you had seven out of eight years where growth outperformed, and then it was the best wave ever, I guess, for value investors. It was a nice time.

Now, we once again had seven of the last eight years where growth is outperforming value. History's one thing, the fundamentals also support. This might be a mighty good time to have some of your investments in value stocks. They seem to be undervalued and underappreciated. Moving on to commodities [slide 25]. People often view commodities as a homogenous group. They are making a mistake. They, over the long term, might somewhat correlate, but as this chart here shows, this is just over the last four years or so, you can see they didn't like natural gas, and then they loved it, and now they hate it again.

They liked gold better than copper, and now they like copper better than gold, and vice versa. You can see, just in the last four periods of time, that was not something you wanted to buy and hold. You wanted to buy the commodities that were cheap, sell them when they had the big run-ups, then roll into something that hadn't. That's what we've tried to do. That's proven very helpful. A lot of lines on that chart, so let's separate some things out.

Industrial metals versus precious metals [slide 26]. You've heard us talk about, and you saw in 2020, how when COVID hit, everybody decided that metals were bad, except for gold was good, and all the money went into gold, which created an opportunity to buy copper, nickel, and other things. That quickly reversed when people decided that we weren't going into a depression. We were going into one of the boom times of all time, and so things reversed. Since then, they've gone back and forth, but for the most part, precious metals had underperformed. Now they're outperforming.

Once again, you can see that the industrial metals have lagged, and so we're spending a lot more time on those again. This seems like the time to continue to harvest a small amount of profits in precious metals and move it into industrials. Within the precious metals, even there, people shouldn't view them as one and the same. We have seen palladium go for $200 to $3,000, back to $800 [slide 27]. We've seen that palladium and platinum that come out of the same mines generally don't even correlate very well.

We have seen platinum that, for many, many years, sold at a nice premium to gold, and the platinum cards and whatnot, that we've seen people liking it a lot, so now platinum is trading at a 65% discount to gold. Is that because platinum is no longer scarce or no longer attractive or no longer used for jewelry or no longer used in cars or no longer divisible or anti-corrosive or all the things that count for money? No, none of those are true. On the surface, there's no reason for platinum to stay at a discount to gold.

Reasonable people can disagree with that, but I don't think they can disagree with the fact that 65% is way too much. Volatility and the waves moving in different times creates opportunities for investors to make money. We talked a little bit, but here let's just look at the two charts here [slide 28]. Natural gas is boring, and every now and then it gets pretty exciting, and that's the time to sell and move back into oil. You can see once again natural gas is very cheap, very boring except for that it does seem to be a cheap, moderately low pollution, moderately low carbon way to meet the intermediate needs of mankind's energy.

Even within natural gas, you've got European natural gas versus U.S. natural gas [slide 29]. We know a lot of the reasons why. It doesn't matter the reasons why. There's a chance to arbitrage which has been very good for U.S. gas producers, U.S. chemical producers, et cetera, and we've done our best to take advantage of that aberration. Outside of the metals, stocks, do U.S. stocks deserve to trade at a premium? Yes, they probably do, but it's interesting to see that over the last 30 years, they're up 12 times where non-U.S. stocks are up 2 times [slide 30].

That's why the US is at a shrinking share of the worldwide economy, so this market is prone to take good things and price them just way too high even for great things, so we like the fact that it's only a double over 30 years for a lot of great, great companies that just happen to not be part of the US indices. Further on international, Japan was hated. Japan was loved in '89, but for a lot of the last 20 years people want to talk about Asia ex-Japan.

Now they seem to want to talk about Japan ex-Asia, I think, so what it changed, but you can see back in 2012, that's when we had 25% of our portfolio in companies based in Japan [slide 31]. It was just very, very cheap. You can see since then, Japanese stocks are up a lot and Hong Kong stocks are not up at all, despite much faster growth in Hong Kong and China. The thing is, once again, not correlated, you can see they go up and down at different times. This is great opportunity for investors.

Japan versus Korea. These seem semi-correlated, except you can see in the late '90s, Japan was at a big premium, and then in 2012, once again, at a big discount, and now it's back to a big premium. Since 2012, Japan's up a lot, Korea is not up at all, once again, despite faster growth than Japan's had. We could go on all day on different ways of looking at this. One last one before handing things off to Alissa, is the emerging markets [EM].

Just like with commodities, although even more so, the emerging markets are not a niche, they are not a homogenous group, and so for people to assume that Korea is anything like Zimbabwe is a big mistake. When people view it as a small niche, they're missing most of the world, most of the people, most of the industries, most of the opportunities. That's where we are now, taking advantage of volatility, taking advantage of the fickle views of the market that like things and then don't for no particular reason, and we expect that to continue, so we're pretty excited.

To go into more in-depth on some of this, let's hand things off to Alissa.

Alissa Corcoran: Thanks, Dave. Yes, as Dave was pointing out, when the herd all believes something, like with EM, the herd all believes that it's some small little niche and that we should allocate 10% or less to this part of the world, when the herd and the crowd act in unison, that's the best opportunities and it creates a lot of volatility. In 2020, when

everybody hated oil because of COVID and ESG [environmental, social, governance], that was the time to buy. Also, in 2020, also because of ESG, when investors hated palm oil, that was the time to buy.

In 2021, when everybody loved clean energy, that was not the time to buy. The Clean Energy Index is now down 56% while the S&P is up 55% over that same time. Now that the clean energy stocks have fallen, might there be some opportunities here? Commodities versus financial assets are near all-time lows. We've shown different charts at times. We see a lot of opportunities on the commodities that will be needed for the cleaner future, but as you might expect, our definition of clean energy is unsurprisingly different than the mainstream.

If you believe mainstream, if you believe the screen transition envisioned by the IEA [International Energy Agency], it's incredibly bullish for metals. Lithium supply would need to go up 1,800%, nickel 150%, copper 100%. Three billion tons of mined metals would be needed to power this energy transition. While it's bullish for metal prices, we believe this is very bearish for the dream actually becoming a reality. We see a lot of issues with these [slide 37]. One, geology. Where are these resources actually going to come from?

Anyone in the mining industry knows that getting 5%, 10% increases in supply is a very big deal. We're talking 100%, 200%, 1,800%. All the cheap supply has been exhausted. At those demand levels, how steep would the cost curve be at those demand levels? Very steep and prohibitively steep. There's a lot of geopolitical risk in the supply chain. When you are needing so much copper, you're depending on places like Chile and Peru. The cobalt, almost all of it comes from the DRC [Democratic Republic of Congo]. All of the processing is in China. You're very exposed to these countries.

In addition, we do not have the infrastructure to support this green energy transition. I have read all sorts of numbers of how much it would cost. It tends to center around $4 trillion a year. How will already indebted governments afford $4 trillion of additional spending? Can we imagine the interest rates on government debt? Fifth, green energy is often more expensive, less efficient. All you have to do is look at the countries that have gone full speed ahead into solar and wind and look at their energy prices. We're talking 45% higher.

Then, the "carbon-free renewables". Electric vehicles [EVs] are not carbon-free, and it's debatable how much carbon is being taken out of the system. Net zero, as envisioned by the governments around the world, we don't think this is going to happen. That does not mean that there aren't opportunities in commodities that can take us in the right direction. As we've talked about many times, the best times to buy commodities are when they're trading well below their incentive price.

This is usually the hardest time for investors because when prices are low, that means that we're in an oversupplied market. The demand outlook is uncertain. Mining companies are shuttering production. They are either making no money or losing money. M&A is dead. The sell side all have sell ratings on the stocks because they're waiting for things to "stabilize". It's a hard time for many investors to buy, but that's why we buy them. It's not easy to, but that's the best time to do it.

We've identified a number of commodities that are trading below their incentive price, some of them well below their incentive price [slide 38]. Natural gas is a case in point [slide 39]. As Dave pointed out in his charts, natural gas is cheap versus Asian and European gas. It's cheap versus its own history. It's cheap versus oil. The prices are now low enough that supply growth is not very significant. Meanwhile, the demand outlook is very positive. In the U.S., you could see demand growing with AI, electric vehicles, industrial reshoring. All of this is very positive.

It's also expected to grow outside of the U.S., and we're building liquified natural gas [LNG] terminals to export. We could imagine these prices between European and Asian and the U.S., those prices converging. Finally, is natural gas a fossil fuel? Can we really say this is a clean energy? Between 2000 and 2020, the U.S. cut more carbon emissions than Germany just by switching from coal to natural gas. We think that natural gas is part of

the solution. It's cheaper to buy on Main Street, but that's hard to buy, so there's still a lot of upside in the actual producers.

Volatility in lithium has created a lot of opportunities. It's down from $85,000 a tonne down to $10,000 a tonne, and it's just an example of how quickly sentiment can change [slide 40]. In 2021, the headlines were all reading that Internal combustion engine [ICE] vehicles are dead, governments are banning them, cars are spending more than a trillion dollars on EV development. The sell-side models all had the new cars, EVs were going to make up 70% of the market share. Today we have a very different picture, and we still have our concerns. What will demand be? What will the cost curve look like for lithium?

It's a very new market, but at these prices, you don't need to make Herculean assumptions for EV demand. We think it's going to be part of the mix. There's a lot of upside in the mining companies if lithium just gets to $15,000 a tonne. If people are bearish about EVs, they should be excited about platinum and palladium, which are used for catalytic converters in ICE vehicles. As Dave's chart showed, platinum's basically been flat for a long time [slide 41]. Palladium's down from $3,000 an ounce to $1,000 an ounce. The miners are down 80%, 85%.

At these platinum and palladium prices, a large majority of the mines are losing money or breaking even. You've just had a large supplier announce a supply cut. Others are likely to follow if the prices don't rise. We think that the prices need to at least double to incentivize any new supply. In addition, platinum and palladium are both in deficits. Again, can we really argue that platinum and palladium are clean metals? When it comes to electric vehicles, we would argue that perception is not reality.

Most people believe that EVs are great, hybrids are okay, ICE vehicles shouldn't be banned, but many don't consider the amount of energy and carbon that is needed to build the batteries of the EV. There's a lot of other assumptions that go all into this, but when you include this and other factors, the break-even point could be anywhere between 50,000 or 150,000 miles.

Toyota has said that the amount of materials used to build one electric vehicle could instead be used to build 90 hybrids, and that actually the amount of carbon reduced is greater with hybrids. Hybrids may actually be better, and there's the same amount of platinum and palladium used in hybrids as in ICE vehicles [slide 42]. In addition, consumers seem to like them. They're taking market share.

As Dave also pointed out, platinum has a lot of, and palladium, have monetary characteristics [slide 43]. They're durable, non-corrosive, divisible, portable, scarce. They don't have the same brand value or the history of being money as silver and gold, but a lot of that comes to these are more difficult metals to work with. They require a much higher temperature to melt, and so they weren't used historically until the technology allowed that to happen.

They have very similar characteristics, and platinum has a long history of trading with gold. As you can see, for most of the 125 years, platinum traded at a premium, and I found this chart, it goes through July 2023 [slide 44]. Now, we are off the charts. Platinum has never been this low relative to gold. We think that platinum and palladium as commodities have upside. They have further upside if they trade in line with gold, and then, obviously, even more upside if they traded at a premium, which they've historically done. The mining companies are especially attractive with many multiples of upside.

Please note these are not risk-adjusted [slide 45]. We take 70% off of this because these companies are in South Africa. If you want to read more about how we think about precious metals, this is our newest white paper, so please take a look at this. Volatility continues to be our friend, and in general, this quarter, we bought a lot of platinum and lithium, copper, oils, trimmed a lot of our gold. We've trimmed Japan, bought Korea, and then within China, we bought and sold China. Lots of trims and adds, which is always part of our process.

Our analysts are actively searching for companies around the globe, and because we're willing to look different, we've put together a portfolio of industry leaders trading at very, very attractive prices. Our whole portfolio is 90% of a tangible book value, cheap on every other metric, and same with the international portfolio [slide 48]. We continue to be very uncorrelated. We look nothing like the index, and we believe we're well positioned to catch the real asset wave, the emerging markets wave, the small cap wave, and the value versus growth wave.

With that, we'd like to thank you all for joining our call, and we can open it up for questions.

Mary: All right. Thank you, Dave and Alissa. Before we get started on the Q&A, I just want to share a quick comment about our methodology for handling questions. On our last call, we received over 20 questions, and we're so thankful to each of you for your attendance and everything that you ask. To keep the Q&A session flowing and to be sensitive of everyone's time, I grouped similar questions together thematically as I moderate the discussion, so I may or may not read each question individually.

If you feel as though your question has not been addressed, please reach out to us after the call and we're more than happy to follow up with you. Our first question, Dave, I'm going to throw this one to you. Could you comment on our view on small caps, EM, and any other sort of cheaper sectors or regions that you're seeing right now?

Dave: All right. Happy to. The answer may be right in your question. The areas that are cheaper are the ones we like best, and we do like the fact, whether it's small cap or real assets or international or you name it, there are sectors that have been left behind. Even with the market at all-time highs, the sectors that have been left behind are often very cheap. We like them. We're spending time on them.

Mary: Alissa, the next one, our next question is about gold mining companies. We talked a little bit about them, but we have a question on the rising labor costs for those companies.

Alissa: The mining companies, they're extremely volatile in their costs quarter to quarter, so it's not our competitive advantage to guess what the labor costs are going to be, what the oil costs are going to be. Over the long term, what we do is we normalize the margin. There are times when the commodity prices rise faster than the costs, and vice versa, there are times when the mining companies are making 40% margins. There's times when they're making zero or negative. We just use a flat 22% margin and normalize.

Dave: We've always talked about Charlie Munger and his way. We're not saying that we have the right way to analyze commodities. Munger always said start by throwing out the wrong ways. Adding to what Alissa said, the wrong way to do things that are volatile is to not like them when they're down and like them when they're up. It's worked out quite well for us to know that they normalize over time.

Mary: Another question about gold miners. Alissa, I'll send this one to you as well. What are your thoughts on the recent plunge in Newmont [Corporation]? Was it an overreaction by the market or buying opportunity?

Alissa: Well, I'll note that the plunge happened right after a massive rally. Newmont has gone from an $85 stock in April of 2022 down to $40, down to $29, back up to $60, now back down to $47. It's extremely volatile, and we've been obviously taking advantage of that. We assumed a position when they acquired Newcrest. When it was at $40, we were buying. We were buying even more last February when it was $29, and then trimming at $60.

Mary: All right. This is the last of some questions that we had received prior to the call. I'll ask this one and then we're going to move into the live questions, of which we're getting quite a few. If you do have a question, please type it into the Q&A box. Dave, I'll send this one over to you. What is Kopernik's view on crypto as an investment? Would you compare it to gold? Some people are comparing it to gold as a store of value and inflation hedge.

Dave: Yes, for a lot of years, people have been comparing it to gold. We, for the longest time, have said there's a lot of things that are intriguing about crypto. The story is good, and the freedom from the governments. There's a lot of things to like about it. If what we're told is true, there's the scarcity value. We like that. There's a lot to like, and it does seem like an interesting speculation. A store of value, however, if we're not talking about a small part of a person's wealth, where do you actually store your value? If you take something that has been a store of value for thousands of years, and it is nobody's liability, it can't be defaulted on.

It can't be lost because somebody lost a password or because there was a power surge or things like that. Gold is a store of value. It's not exciting, it's boring, but it's a great store of value. A crypto, you can see the way it flies up and down so much. It seems maybe a good speculation, but it's more of a speculation than a store of value, in our opinion. We've also talked about, though, what's going on with fiat currencies around the world. We like gold, crypto, and everything else that isn't fiat currency is worth consideration.

Mary: All right. We have really interesting questions coming in today. We have not yet released the agenda for our investor day that's coming up, but our clients seem to know what we're going to talk about. On that day, we'll feature two panels with our analysts, one on real assets and one on emerging markets. We have a lot of questions coming in on both of those areas. What I'm going to do is group those questions specifically into those areas.

Let's start with real assets. Our first question is about oil, particularly, do we have opinions on three different particular tickers, RIG, which is Transocean, EC which is Ecopetrol (like Petrobras), and PKN (a polish integrated oil company). Maybe broadly, what do we think about different types of oil production right now?

Dave: I can start. As I just said in the last thing, we are interested in anything that's scarce and useful that will probably do well versus the dollar, the yen, the pound, and you name it. We like it. What matters is how much we like something versus how much others like something. We've also told people, whether we're talking commodities or emerging markets or anything else, we spend lots of time doing research, but we try to have the humility to know that we don't know the future. We only get excited when people are way off our price.

For the longest time, we said, "All right, maybe 75 is a good price for oil, but maybe it's 100, maybe it's 50, we don't know." We get excited when it hits 30, which it does now and then. We run for the hills when it hits 140, as it has in the past. Here, we like it. Everybody else likes it. We don't own a lot. Natural gas is heated. It's near lows. We have more of that. As to specific names, it's interesting. Alissa and I were talking about Transocean yesterday, but I don't know if you have thoughts on [it].

Alissa: I mean, we were commenting on how it's not made money in 8 out of 10 years. Also, in terms of oil CapEx, in real terms, it's down in half since 2012. We think that people are going to continue to need oil, and so you could probably see a resurgence in oil CapEx that's going to be needed in drilling. It's certainly interesting, and we're looking.

Dave: The other is, I guess, we'd have to talk to our analysts and get back to you because I don't think at the spur of the moment we can add that much. We will add. We've talked in the past. It's interesting how, in recent years, oil stocks have done better than oil. Gas stocks have been better, I guess. For a while, copper stocks were doing better than copper. Until recently, gold was the only place where the stocks were doing way worse than the gold, and still continue to do so. That's what we like. If things like Transocean have not kept up with Exxon, for example, it does get more interesting. Maybe we will find more value in stocks related to oil than in oil itself.

Mary: We'll stick with some energy commodities. We've got a couple of questions on uranium. We trimmed and added both to Cameco this last quarter. How are you feeling about both Cameco, in particular, and uranium, in general, Alissa?

Alissa: I think a lot of people are coming around to our thesis that nuclear power is clean, cheap, carbon-free, very good baseload power. Now, a lot of the uranium stocks are reflecting that too. The mining stocks are-- Uranium is 80. When we were buying, it was 18. It's a very different universe. Again, we like the volatility. Cameco is a perfect example of that. We were buying at the high 30s and then selling when it got to the high 40s. I believe it's when we were trimming out of that. We still like Cameco, but everything is about price.

We continue to hold Kazatomprom, which is the number one uranium producer in the world. It's a very low-cost, high-quality company. It's just in Kazakhstan. There's an additional discount, which we think they're over-discounting these emerging markets. We also continue to hold the physical [through companies that own uranium].

Dave: Interesting. We probably have 6% uranium, call it that. That's probably more than most anybody has. We still like it. It's down from 13%. People are like, "Why are you selling it?" We had 13% when uranium was 20-something. It's up four times. As Alissa said, the stocks are up more than four times. We've also talked in the past, you guys are probably sick of it, but optionality. There are times to own Sprott Uranium that doesn't have any optionality. There's times to play Cameco that has the optionality, and times to play Fission and NexGen that have lots of optionality.

We wanted a lot of optionality when uranium was 20. Now, we think we're doing better to own the Sprotts than to own the NexGens at current prices. Cameco is right there with NexGen. It's a value, but it doesn't compare to Kazatomprom or Sprott.

Mary: Awesome. Thank you. Moving to palm oil. Do we think that the anti-deforestation rule in the EU will ever be implemented? I'm not familiar with that rule, so I hope one of you is. If not, I'm happy to reach out to our analysts. Has the recent increase in palm oil prices brought the price level above the marginal cost of production?

Alissa: I can start. This is another ESG where perception and reality are different. A lot of the palm oil companies that we own, they have been banned from deforesting for a decade. The deforestation has not been going on. A lot of their palm oil has to be traced, which is a demand of their customers. Supply is effectively fixed, but it's a very good oil. Actually, from a deforestation standpoint, it's much better than its substitute, which is soy, because you require six times the amount of land for soy than for palm oil.

We think it's actually a very good thing from an ESG standpoint and from a deforestation standpoint. I think because of this ESG stigma, they're still too cheap. We think that the prices should be much higher.

Dave: It's all perception. The last question, uranium. People didn't like it for the longest time, and now they've decided if they want carbon-free energy, it's a good thing. Palm oil, people didn't like for the longest time, and it sold at a big discount to soy. Now, people are figuring out, "Well, if we want food oils, this is probably a lot better than soy." For the first time in a long time, prices are up a lot while soy prices are down. People are finally starting to figure out, "maybe it's not so bad."

Mary: We'll move on to some metals companies, still in our real assets area here. It looks like you're now taking exposure to some lithium companies. Are you comfortable with the downside risk, and what parts of the value chain, and which companies appear most attractive?

Alissa: Ok, I'll start. Lithium is very interesting, and no, we're not comfortable. There's so much that could happen with lithium. It's a very new industry. There are so many deposits that could pop up. There's a lot of technology that could mean that the cost curve changes dramatically. Where we have been most comfortable buying lithium is in the very high-quality assets, far on the left side of the cost curve. We own SQM [Sociedad Quimica Y Minera de Chile], which has the highest-quality deposit in the world. We also own Arcadium [Lithium Plc], and that was

recently announced that Rio Tinto is going to be buying that company. Those are the two lithium areas that we've been invested in. We've stayed away from the higher cost on the right side of the cost curve.

Dave: To add to that, for years we've gotten asked, "How do you get comfortable owning this stuff?" Our answer is, "We don't get comfortable. We get overpaid to take that discomfort. This is an example of it." It would have been comfortable to own it when people were just going gaga over it a few years ago. We were fortunate that we spent a lot of time, back a year and a half ago in Argentina, looking at properties, meeting lots of companies, going to conferences. Taylor and the team spent incredible hours trying to figure this stuff out.

It's not easy, but just like I was saying with oil, we've got to put a big range around it. Do we know what lithium is worth? No. Do we feel comfortable that 15's not a bad number, and so what, 10 is cheap? That we think. Then, we have our opinion. We like to see what people are doing about that. With uranium, we are comfortable when people were closing mines at lower prices. With lithium, we're comfortable to see people giving up on some high expensive projects. It's nice to see Rio [Tinto] come in and validate what we thought on this one.

Mary: Dave, I'll send this one to you. What's our take on the rare earth metal market?

Dave: Another question that came up yesterday. We think everything has a value. We try to wait till the market has a very different opinion than we have. Not that long ago, people were paying high prices for rare earths. Now it's gold at all-time highs and other metals have come down. We are broadening our area of research, and we can probably give you a more concrete answer in the future.

Mary: In terms of this area, the real asset space, what about processors and their value add versus the miners?

Dave: Another thing we've talked a lot about.

Alissa: Great question.

Dave: It's easy to say, we have said for years, if materials are scarce, and most of them are, and processors can get built, we much prefer materials. That's where we've been and it's worked pretty well. Processing becomes pretty complex. If you're buying copper, you're buying copper. If you're buying chemicals or you're buying uranium, if you're buying lithium, and increasingly, if you're buying nickel and lithium. You're really buying a heavily processed product. That makes the processors more interesting. We're learning everything we can.

Of course, that's one thing, and then if people want to build a lesser processing capacity that's not needed, that dampens the value of the processors. Chemicals, papers, and process stuff versus just owning forest and oil, there's a time and place for everything. Inherently, processors are less barriers to entry.

Mary: Do we know roughly the percentage of the portfolio right now in gold, PGMs [platinum group metals], uranium, and lithium? You just said uranium's at about 6%. Lithium, gold, and PGMs.

Alissa: I think we're about 15% gold, 7%, 8%, 7.5% PGMs, 2% lithium, yes?

Dave: Yes, because the SQM will be what's left.

Alissa: Yes, and then once Arcadium's, right.

Mary: Sorry, one follow-up question to that. How much have we trimmed of the gold miners? What sort of percentage have we taken out?

Dave: It's one of those nice things where you can trim and still be right where you started because you're growing up so much. We've trimmed quite a bit. If we were maxed out at 25, which we were, and now we're closer to 23. Of that 23, a lot more of it is PGMs and whatnot. It's probably fair to say we've taken 4% or 5% out of the gold.

Mary: All right, let's move on to our more emerging markets or geopolitical theme. We have a question on Argentina. You mentioned you were there last summer, Dave, or two summers ago now, I guess. A lot of us were there. You went to visit some companies. What's your thought on Argentina, the rally this year in the markets?

Dave: We've talked about how rallies don't take everything all at once. The rally is left behind a company called Cresud, which is a big agribusiness company that also has exposure to some of the better real estate in the country. We like that. We were doing research on the banks and oil companies, but they ran so fast we didn't catch them. We think there's lots of opportunity in Argentina. It'll be interesting to see whether he can do these policies and get reelected.

If he can, that would probably be very bullish for Argentina, because we've talked about it in other of these quarterly calls. How it's a country with a lot of land and different climates with good agriculture, lots of oil, lots of minerals, and smart people. If they could ever get their act together politically, a lot of upside.

Mary: Right, we have some questions on the conglomerates that we own. We've invested in a lot of companies, conglomerates over the past. CK Hutchinson [Holdings] is probably the one that we've talked about the most recently. Are we still bullish on those conglomerates that we do own?

Dave: Yes, another way to word that is the market still too bearish on these things. Yes, we've talked in the past. In the 1960s, people paid big premiums for conglomerates. It's like, "Oh, there's diversity and there's the ability to take money from one business performing well, to invest in and underperforming, to capture market share, and what a great business. That's the way to go." Nowadays, people view them as horrible, mismanaged things that have excess costs and they don't like them unless it's virtually halfway. There, one has to be interested.

People may remember our first step into this pretty much was GE [General Electric], where we got a quick double and sold it before it doubled again, and then some. Still, people went from thinking the company was infallible to thinking some great businesses were worthless. We took advantage of that. Now, they don't like conglomerates, and they don't like Asia. We have four or five conglomerates in Korea. We've been doing a lot of research and, in some cases, nibbled at places in the Philippines and Indonesia, Malaysia, places like that. We won't go on too long about this.

The refresher we view, just like we have a portfolio of stocks, a conglomerate is a portfolio of businesses also. We try to look at each one of those businesses on their own, figure out what we think they're worth, put them all together, subtract all the things that need to be subtracted. If we're left with a price that's way higher than the market price, then we take advantage of that. They tend to be one of the cheapest things in the market right now.

Mary: I mentioned CK Hutchinson, which in part, has a telecoms business. We have a question about other EM telecom companies. We own two in Korea, KT [Corp] and LG Uplus [Corp]. The question is about catalysts, which I know we don't typically tend to look for, but I'll just read the question. What are the main catalysts behind their attractive valuation? Is it the end of the 5G rollout? Is it an EV charging business? These are very attractively valued companies. What do we think the market is missing? Alissa.

Alissa: I think the value is its own catalyst. These are extremely very well-run businesses, high barriers to entry, very leading market share in their industry. When we're buying Telecom, we are not interested in buying the fourth or fifth player. We want the number one, number two, number three player, and so that's what we have. The

telecoms we do have are our leaders, and we just think that they are being ignored. There's just so much focus on the US and tech within the US.

These are very attractive companies, and back to CK Hutchison. This is a company that's trading at seven times earnings, 30% of book value. They have the five busiest ports in the world, they have Canadian oil. They have telecom and we like the stuff that they're doing. Hopefully, the regulators in Europe allow them to start making a better return. Hopefully, the regulators in Korea allow them to make a better return in Korea, too. Again, then we don't need that to happen for these companies to do well for their stock prices to do well.

Dave: I see, and AI mania now, some of you are old enough to remember in 1999, the mania was tech and telecom at that point in time, just like they're doing with AI now, and there will be big winners in AI. There were big winners in tech and telecom in '99, but people were throwing money everywhere. When you throw money everywhere, you usually get a terrible return on that. People were starting phone companies left and right, so you had too many phone companies with lousy market share. What's great about telecom, it's something that people need where you have a natural monopoly or oligopoly.

These companies just spread out and lots of little companies in all these countries, you didn't have that market power. It was stupid. What's happening now is one by one, these companies are saying, "If we're not a top three player, we are out," and so that is happening. As that happens, we just had a presentation this morning showing what margins happen when the number four player goes away. If you want a catalyst, I guess that's it. Once you get down to three players, usually, more rational behavior happens. Not always, it hasn't happened in Korea, but eventually it will.

Mary: We've divided this into our two, previewing our upcoming panels at our investor day. Our last question on our geopolitical side of things is about Russia. Do we have any update on the asset pricing or any opportunities to exit positions there? Dave?

Dave: No opportunities. Every now and then, people will come along and say there's a way to exchange these stocks for US stocks there. We've talked to various people about doing it. They've been comfortable, they could do it, but it doesn't seem like they've been able to do it. From everything I read, the government's really cracked down on any attempts to do that. We don't think there's a chance to exit; the stocks trade in Moscow, so you have an idea. At least what people think are worth there for a few years. They went up a lot; this year they're down.

The companies themselves, in most cases, we are able to get their financials and read what's happening with the exception of Gazprom that had their pipeline bombed. The rest of these companies are doing shockingly well. Almost every one of them are increasing sales earnings, book value, you name it. The companies are doing very well. We do not know if and when we ever see the money, but we do know the companies are not wasting away, they're becoming more valuable.

Mary: We still apply a 70% haircut to those companies, correct?

Dave: Correct.

Mary: We still have a lot of questions, even if we're out of our panel sessions. Sorry, Dave, you're not off the hook yet.

Dave: Questions are our favorite thing.

Mary: Yes, by far. We have quite a few different questions on the financial sector, so I'm going to go through those. Our first is about the upcoming commercial real estate debt maturities and its impact on the financial system. Let me read the question. What do you think the upcoming commercial real estate debt maturities estimates are between $2.0 and $2.7 trillion? Those loans coming due in late 2025 and 2026. How is that going to affect

the U.S. stock market and the U.S. banking system? How could the banks fix this upcoming issue and what are the possible ramifications of some of their actions? Dave, do you want to take that one?

Dave: Yes, sure. In the short term, it's hard to imagine anything on earth that would upset the stock market in any way. They don't care that there's rising debts, credit cards, rising defaults on cars, that real estate is going to have a problem, and mortgages are back above 7%. We don't own any U.S. real estate stocks. There are places in Asia where we are looking because the stocks are already down huge. I don't think we have anything of value to add other than we agree with the person that sees it as something people ought to pay attention to. We'll look at real estate after they start paying attention to it.

Mary: All right. Our next is about just the sector, in general, and what we're interested in there right now. What are our thoughts about financial companies, in general, and is there a particular subsector that would tend to draw our interest? Private equity, traditional banks, asset managers, Alissa.

Alissa: When we're valuing banks, we own some asset managers. In financials, we own some banks, mostly in emerging markets. We own uranium, which is classified as a financial, but it's actually just physical uranium, but when we're buying banks, we prefer emerging markets. We prefer where they're growing economies, where they're under-banked, and oftentimes these companies are a little bit simpler. You don't have all the derivatives in the black boxes of more developed markets. That's where we've bought, and we also are getting the best prices, so that's our approach.

That doesn't mean that we wouldn't own a developed market bank. It's just that we want to be paid because these companies are extremely levered. Not a lot has to go wrong to wipe out your book value completely. UK asset managers have been falling for three years straight seems. When we're thinking about owning an asset gatherer, so how we view them, we're saying, "2 1/2% of their assets under management seems about right." Many of these asset managers in the UK are trading for 70 basis points. Very, very cheap, and so that's something that we've been spending a lot of time on.

Dave: To add, quickly I mentioned private equity. It's 12, 15 years ago, there were so many advantages for private versus public. That seems to have completely flipped. We're, as Alissa said, finding lots of values in the public markets now where private equity is, arguably, way over-honed. I think we would agree with the people that say, "Private credit is downright scary," and so we actually like the public markets there.

Mary: Would we consider investing in closed-end funds when they trade at very wide discounts to their NAV and appear to be well-managed? Dave.

Dave: Another thing we've heard conversations about recently, quite a bit, but there are obstacles to doing that, fees on fees, although if we ever did that, we would rebate the fees. Buying things at big discounts is what we do.

Mary: All right. We have a few questions left. A couple more on platinum and then one on China. I'll start with China. Can you comment on our China holdings with Baidu Inc, we have Alibaba [Group], we have a few others, in light of recent stimulus efforts by the government. Dave.

Dave: Well, putting aside the stimulus, for now, we have always shared, "Well, what if Google decided to move to Italy, France, or China, are they worthless?" I think most people would say, "No, they're not worthless." "Do you want a 10% discount or a 30% discount or a 50% discount?" Then, reasonable people can have this discussion. Baidu is such an incredible discount to Google. We want half off to even consider it but the market gives us a lot more than half off. As we talked about with all emerging markets, we are buying good companies that we

want to own, and then we're saying, "Let's discount it because there's more risk to be in there than there is to be in the US."

That's our reason to be in China, really good companies. These are the conversations we've had in recent days about things where China's not just copying their leading-edge technologies. It's really interesting, the difference between prices of Chinese technology versus U.S. technology, also healthcare, utilities, everything's a big gap. China, we mentioned earlier that they seem to be ready to come with a fire hose of money. That may or may not help China. I don't know.

It's helped the US the last few times. It didn't help Japan for 25 years. It didn't help the U.S. in the 1930s. Money's not the answer. It may or may not help their market. That's not why we own it. It is a good reason to own hard assets around the world.

Alissa: Just to put some numbers to that, Google, it's 60 times larger, their market cap than Baidu's. Just an amazing discount.

Mary: That's intense.

Alissa: Yes.

Mary: Speaking of owning hard assets around the world, let's go back to a question on a couple of specific companies. One is SSL which looks like Sasol Limited which is a South African integrated oil and chemical producer, and then Sibanye-Stillwater, the other one. Dave.

Dave: It's been years since we looked at the first one. Sibanye, we put a lot of time into, right?

Alissa: Yes.

Dave: Is it attractive? Yes. Is it more attractive than Anglo [American PLC] and Impala [Holdings Ltd]? That's under discussion.

Alissa: I mean, we look a lot at management and their actions. Over the years, it seems that Sibanye has done some good things and they've made some bad capital allocation decisions. They've bought some things way too high of a price. Now, their balance sheet is pretty stressed. When you factor in that additional discount that you would need for Sibanye, right now, we've been more comfortable with Amplats (Anglo American Platinum Limited) and Impala. Again, we are discussing that. They are one of the ones that are taking out supply because their Montana asset is very high cost.

Dave: Sasol would have to be really cheap because you only want to have so much of your money in South Africa. If you want to own platinum and palladium, you pretty much have to be in South Africa. We are going to be there with the energy names. We don't have to be, but it's interesting from time to time.

Mary: All right. We'll finish up with one more question on the PGMs, so, Alissa, I'll throw this one to you. What do we know about supply and demand for those? The uranium picture is pretty clear that there's a deficit really for the next 5 to 10 years. What kind of visibility do we have into the PGMs?

Alissa: They're quite sizable deficits actually. They've been in deficits for the last two years. We think the demand is very strong. Now, does that demand come more from the monetary characteristics? Is it our scarcity value as we've mentioned? Time will tell. If you just said, "Okay, they're a commodity. Let's forget about the monetary characteristics." With EVs being more challenged. EVs have actually lost market share this year while hybrids

have continued to grow market share. The same amount of PGMs are needed in hybrids as they are in an ICE vehicle. We think that the demand continues to look very strong with PGMs.

Dave: It's strong on the commodities. You said on the monetary front, people have sent us articles about Costco selling bars. People have sent us articles about the Russian Central Bank starting to buy platinum. If it starts to be viewed as a monetary asset, the upside is tremendous..

Mary: All right, that does it for our questions. Do either of you have any closing thoughts you'd like to end with?

Dave: Nothing, in particular, other than thank you all for joining us. As we've said, we think the recent increase in volatility in the market should be a good thing for active investors, and value investors. We appreciate your support. We hope to see a lot of you at our Super Terrific Happy Day and Investor Day event.

Mary: All right. Thank you, everyone.

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

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