Q4 2024 Conference Call Edited Transcript

Kopernik Global Investors, LLC

Edited Transcript of the 4th Quarter 2024
Conference Call with Dave Iben and Alissa Corcoran

January 30, 2024
4:15 pm ET

Mary Bracy: Good afternoon, everyone. I'm Mary Bracy, Managing Editor of Investment Communications here at Kopernik. We're pleased to have you join us for our fourth 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 4th Quarter 2024 Conference Call. I'm joined by 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.

From an asset standpoint, we ended the year on a strong footing with roughly $5.4 billion under management and overall firm revenue generally flat compared to last year. On the personnel side, we've continued to invest in our firm by bolstering our investment team and also our overall infrastructure during last quarter and year. We're currently 45 employees strong going into 2025. Also, we extend our gratitude to everyone who joined us for our successful investment events: Super Terrific Happy Day, and our first ever Investor Day in November in the U.S.

We are also excited to announce that Dave will be presenting at the New York Value Conference on March 26th, and Alissa will be presenting at the London Value Conference on May 14th. That brings us to an end to the business side. 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. While there, you'll discover Dave's latest commentary, *Rivers of Babylon*, and our newest white paper focusing on South Korea alongside other highly regarded pieces. Without further ado, I'll turn the call over to Dave and Alissa. Dave, please go ahead.

Dave Iben: All right. Thanks, Kassim, and thanks to everybody for joining us. There's certainly a lot to talk about. What a quarter, what a year we've had. For starters, what a party. Us value guys, we've missed the party. Keynes has talked about there's nothing worse than watching everybody else make a lot of money when you're being left behind. We'll talk a lot about some of Keynes' theories and where the market perceives beauty as we go through this. However, having lived through this before in the late '90s, I am very glad I didn't drink the Kool-Aid back then.

Very happy to not drink the Kool-Aid this time around, too. I can imagine what the party was like in 1929 where people correctly expected good things for the U.S. but had a 90% correction. We, of course, have talked a lot about, in the last few years, about how things looked a lot like the early '70s. Sure enough, it's interesting how the, as we talked last time, the market did really well, and in 1966 got way ahead of itself. Had a little correction, came back to new highs in '68, at which point a lot of the giddiness fell out of the market and it transitioned into a narrow group of companies called the Nifty Fifty.

How interesting now that in 2019 the market got giddy, the most expensive it had been. Then the Feds blew out and the market started to fall, but the Fed came to the rescue. 2021, I think, was way worse than 1999 in terms of the sheer wackiness of the market. Since then, it started to correct and many things have kept correcting, but a narrow group of stocks, the Magnificent Seven and a few others have carried the torch and things have gotten pretty good. The market sees a lot of beauty in these stocks and elsewhere. We, having missed the party, will give a sober view of where we think they're right to see the value and where they might be looking through beer goggles.

Here is 2024 in a nutshell [slide 10]. We had about 17% of the portfolio in Korea. The Nifty Fifty came up to about a third of the U.S. market, which is two-thirds, roughly, of the overall market. Less than that early in the year. Call it 17% there. Where most people had Magnificent Seven, we had Korea. One went up 67%, one went down 21%. There goes the underperformance. There's 1,500 basis points right there. The markets sometimes are right and sometimes they get a little crazy. Whether we're doing really well or struggling a bit, it's always best to do the postmortem and say, were we wrong or the market was wrong?

Yes, a third of the time we find we're wrong, but the market a lot of times gets it wrong. Let's start with Korea [slide 11]. Is Korea's market down 21% because revenues were down? No. Revenues were up. GDP was up. EBIT was up 43%. Earnings were up by a third. Tangible book rose. Korea did very well. Why did the market fall 21%? Seemingly no reason. It's hard to say. Did things do well because of fundamentals? No. The earnings and everything were up. It was the margins that collapsed. On every metric pretty much, Korea became cheaper. Not because the fundamentals were down, they were up because the multiple on those fundamentals fell.

The S&P earnings weren't up that much really, and not counting the Mag Seven, I think we're probably down [slide 12]. The S&P did well because instead of the multiples collapsing, multiples expanded, which is typical of late bull markets. Where earnings didn't go up much, the multiple on earnings went up by 15%, multiple on EBIT by 22%, and so on. There wasn't that much fundamental difference this year. It was the market's perception that mattered [slide 13]. That perception has caused a very lopsided market. Look at the U.S. being multiples of the rest of the world put together.

Does the U.S. have a lot of things going for it? Yes, but that's an extreme. We saw similar in Japan back in 1989, and that didn't end well. The market, as we mentioned, is getting narrower and narrower. It's pretty much being captured or led by the Magnificent Seven. Not counting that, it hasn't done that well. Magnificent Seven, an interesting tidbit, was named after the movie, Magnificent Seven, back in the '60s, the time we're talking about, based on seven samurais, which is a Japanese movie. We've talked a lot about the past, but back then Japan was a smaller country, an emerging country, one that had just lost a war. It was not liked by the U.S. They were the enemy. They had a lot of the problems emerging markets had, but people like John Templeton took advantage of that, and over the next quarter century did very, very well, even as the U.S. struggled. That's interesting. We'll see how this Magnificent Seven does in the future.

We're hearing a term a lot lately, U.S. exceptionalism [slide 14]. We're not going to talk so much about exceptionalism other than to say there's a price for everything. If the U.S. is exceptional, what price should one pay for that? It's been exceptional for a long time and sold at a premium, but look at this. This is quite a premium. Can they meet expectations? Like we mentioned, it's the U.S., but it's a small group of the U.S. that's carrying it, so these are very loved stocks. As you can see, the market doesn't have a lot of breadth to it [slide 15]. Missing the party in a lot of ways [slide 16]. This is—small cap of failed to participate in this party. The party's basically just been a handful of stocks [slide 17].

Are they right to find these things beautiful? Absolutely [slide 18]. These are dominant companies. They have great scale. They're oligopolies. They pretty much have great relationships with the government. They've disrupted things. It's a whole different world. These products have become needed in many cases, and it's tough to compete. They've been adaptable. They've managed to keep high levels of profitability and strong brand image. These are way stronger companies than we saw in the 1990s. This is absolutely true. These companies deserve to trade at a premium.

On the other hand, at tops, things always look really, really good [slide 19]. Here, some of the beauty's real, but some of it maybe is skin deep. Some of it might be fleeting. History has a way of what's popular one year not being popular the next. And then the main point is, sure, these are great companies, what price should one pay for great companies?

What could happen? Now, we completely acknowledge that the positives are real [slide 20]. Now AI, it's been taught to lie. It's much easier to say it's hallucinating or whatever, but there's still things to be worked out. Google and others now, they were founded in the past about user experience, and now they've changed the business model. You see a lot of things about what these great companies are having, maybe bad effects on society, bad effects on children and whatnot. Will that matter? Will that lower the multiple we're paying? What does the massive power consumption and other things need in terms of the environment and ESG? Things to look at.

Then we've talked in the past, these are great transformative companies [slide 21]. They're transitioning, they're disrupting things, but we've talked about how disruptors become disruptees. This was all put together before the DeepSeek news came out. What do we know? That seems very transformative. We think the market's held up a lot better than one might expect when companies add $3 trillion in market cap based on products that overnight seem like they're maybe not going to be needed as much as everybody thought, and the whole chain supplying into that. Right now, the market's not in a mood to care, but at these prices, people should care about any possibility of the disruptors becoming disruptees.

Continuing on [slide 22]. Missing the party, but this also all sets the stage for what could happen in the future. But a year ago, it sure seemed like value was cheap compared to growth, things exponentially became worse. That's that. Then international has been so cheap compared to U.S. [slide 23]. It seemed like a great opportunity a year ago, much greater opportunity now.

In terms of the exceptionalism, in a lot of ways, yes [slide 24]. However, I mentioned Japan in 1989, they seemed unbeatable, but it turns out that turning a lot of money and spending a lot of money and running deficits and whatnot makes things look really good. They say don't confuse brains with a bull market. Ultimately, deficit spending's not something that could go on forever. If so, I guess Zimbabwe and Venezuela and places like that would be the places to be. Then, of course, small caps have missed the party [slide 25]. Look at that over the last year, very pronounced and fascinating. It seems like a decade where with the QE [quantitative easing] and the massive run up and people worried about inflation. Not just worried about it, there's been a lot of inflation over the last decade.

Who would have thought that over the last 12 years, commodities are down? [slide 26]. The Goldman Sachs index down. Do they deserve to be supply and demand would argue for higher commodity prices, money printing would argue for higher commodity prices? Fundamentals in the long run should win out, we think. Look at that, last year just completely added to that [slide 26]. Here we are now, but I mentioned earlier, whether it's cliche or not, I'm serious, 43 years, I'm most proud to helping people preserve their money in 1999 and make a lot of money during that collapse of 2000 through 2002.

The market, as we've just showed you, is equally bifurcated now, maybe more bifurcated now. This is our reason for being - markets like this. The best time to be an active manager is when nobody else is doing it and the difference between some stocks and others become pronounced [slide 27]. How does this happen? We could go on for hours on behavioral investing and it's worth everybody's read [slide 28]. But Jeremy Grantham and others have talked a lot about career risk and we've seen various spurts of FOMO in recent years where people are much more afraid of missing out on the excitement than they are about protecting portfolio money.

We'll see what happens this time [slide 29]. '29 and '72 and '99, things looked really great, but it was a dangerous time for people to be playing FOMO. We suggest that's the case now. As I mentioned earlier, what we want to talk about is sort of Keynes' idea [slide 30]. For most of my career, I couldn't understand even this because I hadn't lived through the 1920s and things like that, where people actually were less interested in what a company was worth than they were about what other people would think it was going to be worth, or even worse, anticipating what others might think about it in the future.

As value investors, our whole reason for being is to appraise something and stand by our appraisal, and not to buy something that we don't think is attractive because others might think it's attractive, and even worse, what they might think in the future. Here we are in 2025 and we're just like a 1929 world where it's all a guessing game, it's all a popularity contest. We suggest good time to focus on fundamentals and value because in the past, it's been a dangerous game to play. The market finds some things very beautiful, but as we've talked about, a lot of things have been left behind [slide 31].

Great time for an active manager. '99 was a quarter century ago. I dusted off a presentation that I did almost a quarter century ago trying to say, what do we make of the fact that the market finds some things really ugly that we find beautiful? About that time, a movie came out called Shallow Hal, it was not the greatest movie [slide 32]. It was panned by audience and critics, but it was very interesting. It was Jack Black's big break. He was unknown at that point. Gwyneth Paltrow was very well known. She was in it. Jason Alexander from future Seinfeld fame was on it.

It's basically about a guy, a very shallow guy who was very sexist and just cared about beauty. What a perfect analog, I guess, for the market we're in right now. We dusted that off. In the movie, he runs into Tony Robbins who ends up giving him the gift of seeing real beauty, fundamental beauty, intrinsic beauty. That causes him to see things a lot different than his old friends that are still sexist pigs, so to speak. It seemed like a good way to look at things. Value managers are used to looking at things differently and that can be painful [slide 33]. Hal started to lose his friends who looked down on him for not sharing their views on things.

Whereas most of the value managers who have done very well through time saw that maybe the more pain, the more future gain that was about to come. We have, I think, never seen a bigger capitulation on value than we've seen now. We have one person we've known forever who says they never intend to ever go back to value. Other people who have been in value for decades are telling us they've given up on the concept, continue to see various people say, time to go passive. Maybe, but good luck after 17 years of outperformance by passive.

We suggest the time to do value when it's been the most painful, that is now [slide 34]. That has us excited. Why should people go through pain? In the office, we do planks, talking about pain. The reason to do pain is for the gain [slide 35]. It's to protect clients, because the times that's most painful is when you're missing out on a party. 1929, talk about great changes. World was becoming a better place and people were right that radio and telegraph, and assembly lines, and things were going to be the place to be. The thing to do is protect one's client from the 90% hiccup that was about to come.

We've talked a little bit about the '60s, '70s, Japan in '89. Then you go back, canals, railroads. These were all things that really changed the world. Now we've got things changing in the world, but we've always loved John Templeton's line, "The four most dangerous words in investing are, this time it's different." Magnificent Seven, AI, is it different than all these past times? These past times were great [slide 36]. Here's just a hint of some of the investments from the 1920s before the 90% drop in the market. We talked about the go-go years, the invention of transistors and computer chips, and computers, and supercomputers [slide 37]. Not to mention all kinds of other great examples. This of course was the space age and rockets and a lot of technological change.

People were right to like these things, it's just they lost a lot of money. It narrowed into companies that clearly were quality [slide 38]. If you bought the Nifty Fifty then and held it to now, you did pretty well, but you got tortured for the next 10 years or so. I had the fortune of coming into business 10 years after this and buying these very same companies at 75% off. Hal was given the chance to not be so shallow in his perceptions of where beauty is [slide 39]. What we plan to do is talk about how in this market the market is calling a lot of things dogs that actually are very, very beautiful [slide 40]. With that, let's hand it off to Alissa to go through some of the great opportunities for investment.

Alissa Corcoran: Thanks, Dave. It's much easier to find the inner beauty when nobody else is even trying. News to no one is that in the U.S., $3 trillion has moved from active managers to passive, which is obviously driving up the valuations of companies in the indices [slide 41]. You can see on the table on the right, the premium from the S&P, just over-valued stocks. Then if you're in the index compared to our portfolio, there's a huge premium as well. 70% of our stocks are not actually even in the index. We are clearly in an emotional marketplace. We are in a voting machine time.

This is a good time for active managers [slide 42]. Like Dave was saying with John Templeton, "This time is different," the price matters. Unfortunately for these voters, the price you pay dictates the future returns. As of December of this past year, negative 6% annualized for the next 12 years is a plausible estimate for those in the market. Unfortunately, the price that people are paying may not actually even – what they think they're paying is maybe not actually the price that they're paying [slide 43].

If you look at the ETF of the Nasdaq, in their own protocols, they say that if a company has a P/E [price-to-earnings] that's larger than 40, they just round it to 40. If they have negative earnings, also round it to a P/E of 40. It's effectively capping that P/E at 40. If you actually do the math and you add up all of the market caps and divide by all of the net earnings, you get to a price of closer to 100 times earnings. Your actual expected return on 100 times earnings is very scary. Clearly Mr. Market's in a good mood in the U.S. It's a euphoric mood if you actually look at the real price that is being paid. Outside of the U.S., as we've shown in these calls before, the Mr. Market is pretty pessimistic. This is way too pessimistic for some of the fundamentals that we see.

Investing is all about weighing that popular perception against what we believe is reality [slide 44]. We will get into some examples here. Non-U.S. stocks, the market perceives that the market has gone nowhere for 16 years [slide 45]. There's a lot of currency risks, there's lack of innovation, there's this lack of U.S. exceptionalism that Dave was talking about. Our perception is that the world is a huge place and innovation isn't just happening in the U.S. You might have heard of DeepSeek. There's exceptional investment opportunities in world-class businesses, and the world is the vast majority of the land, people, and businesses.

Obviously, the risk-return of - oops, looks like we messed up some slides - emerging markets, what people believe are small, risk-and-niche-y, they're none of these three [slide 47]. They are the vast majority of GDP growth, population, land, and because everyone groups them together and avoids them together, the price of emerging markets is much lower than the S&P and the NASDAQ. Small versus mid-caps, as Dave was showing, there's a big difference between large cap [slide 48]. The market believes that these small caps can't compete with the hyperscalers that are at a huge disadvantage because of regulation and antitrust and financing costs all favor the big companies.

Small caps are now 4% of the market, which is well below the average. We believe that there are some companies that are large cap now, but they were small caps at one point in time. The large caps are the target and they could be disrupted. Small caps are a less efficient market. The opportunity set is very large. We agree that large caps do have this advantage, but what's the right premium? The premium today is extreme, and we believe the discount is too large for some small caps. Case in point today is JR West [slide 49]. The market perceives Japanese risk, low margins, muted earnings growth, a heavily regulated business.

We see a dominant passenger rail operating in a dense population and operating a form of transportation that is the most popular in Japan. They also own a lot of real estate, and we can buy this company for just a small premium to book value compared to the massive premium that we would have to pay if you wanted to own Union Pacific in the U.S. The Korean Airlines is continuing on in transportation [slide 50]. The market sees a Korean discount that is unlikely to close, they think. They see a company with uncertainty surrounding a merger with Asiana, and they think that airlines are a bad business.

We see a company that has a monopoly with 60% market share of the South Korean market. It is one of the top 10 airlines globally. It has one of the largest freight businesses in the world, and it's part of an industry that has improved a lot as consolidation has happened. Eletrobras, this company is actually lower than it was in 2000. Sorry. The slides are in different order. Anyways, CK Hutchison is a company that we noted during our investor day has the number one ticker [slide 51]. It has the best ticker in the world, number one, but unfortunately this ticker has an HK attached to it, so it's deemed uninvestable. Conglomerates are a thing that the market further dislikes.

What we see is the opportunity to buy a company that is profitable every single year since 1990. The company has a world-leading container terminal operator. It's the largest health and beauty retailer, has great infrastructure assets, and it's a top player in European telecom, all for a 16% earnings yield and a 6% dividend yield. Eletrobras is a company that is lower than it was in the year 2000 [slide 52]. It's probably still our best example of how volatility is opportunity and not risk. What the market sees is a boring industry, an emerging market country with a falling currency and an unpredictable government.

What we see is one of the largest hydroelectric utilities in the world, the largest in Brazil. Hydro is clean, carbon-free, and low cost, and the government intervention can be both good and bad. It has 40% of the shares, it owns them, and so it has skin in the game. The whole company is trading below book value and eight times earnings, and we think it could easily double. Continuing on in boring utilities, CGN is heavily discounted by the voting machine because China remains uninvestable and Chinese nuclear is really uninvestable [slide 53].

Our weighing machine says that we have a large nuclear power producer in China, nuclear power is growing in China, and nuclear power is clean, cheap, carbon-free baseload power. Telecoms is also a regulated, slow-growth industry, according to the market [slide 54]. The market sees a quarter-century of underperformance.

We see an industry that provides a needed service, has an oligopoly structure, provides decent dividend yields, and are trading at very attractive valuations if you look outside of the U.S. Many times, these valuations are attractive even with suppressed margins. LG Uplus is our case in point [slide 55]. Investors dislike the Korea discount again, dislike that margins are low, and that it's part of a conglomerate.

We see a company that has world-class technology, provides a service that people would give up food for, it's part of a triopoly, and is in a pretty well-developed economy. You can buy this company and get a 12% earnings yield, 6% dividend yield, 60% of tangible book value. It's extremely cheap, and book value has been growing every single year. Even though the share price hasn't gone anywhere for 10 years, this company is worth more every year. Conglomerates, the perception of traditional conglomerates is that the market thinks they're just a bunch of mediocre businesses, because who would sell a great business? They're not up for sale [slide 56]. As a result, conglomerates allocate too much capital to bad businesses, and they torture their financial statements in the process. Unless you're Berkshire Hathaway, the market says we don't want to own conglomerates.

In many ways we agree, but active managers have the advantage of being able to pick the best conglomerates. Not all of them are mediocre. We can buy if we can find the Berkshire Hathaways of Asia. In Asia and other areas outside of the U.S., many conglomerates have heavy insider ownership. They're aligned with the shareholder, and they have a longer investment horizon than many of the CEOs and boards in the companies in the U.S. It's interesting that public conglomerates are hated, but if you put a bunch of small cap companies together, lever them up, lock them up, call it private equity, suddenly this intense dislike turns to infatuation [slide 57].

Blackstone's AUM has jumped tenfold since 2003. The market says private equity has higher returns and lower volatility. We say private equity portfolios are still a bunch of portfolios with equities. Many of the issues that people dislike about conglomerates, which is that there's too much money chasing too few and too mediocre opportunities, that is now applying to private equity in this late stage of private equity. They also have very low liquidity and high amount of leverage.

We prefer to buy the conglomerates in the public markets [slide 58]. LG Corp is a company that we own. The market says this is a company that has dead money. It's the same share price as it was in 2008. It's an emerging market. We see that this is a company that has grown book value per share consistently. It has made money every single year for the last 25 years. It's a leading consumer company, has the second largest EV [electric vehicle] battery maker. It's part of a triopoly in telecom. The family owns 46% of the stock and the company trades for less than 50% of tangible book value. We think the stock could triple.

First Pacific is also not a down and out conglomerate, but the owner of a leading telecom in the Philippines, the largest power company in the Philippines, the largest toll road concession in the Philippines [slide 59]. It has railroads, a water utility, palm oil businesses, a dominant noodle business, and a gold mine to top it all off. It has all of the industries that we think are attractively priced at Kopernik, all in one company. Book value per share plus dividends has grown, and you can buy the company for extremely cheap multiples.

Moving on to the other main category that we've talked about many times before, the financial versus real assets [slide 60]. Real assets are near a 50-year low. The market has no need for them. They see no end in sight to this 45-year bull market in financial assets, no risk of inflation, no risk of higher interest rates, and there's no price too high for these platform hyperscalers.

Our take is that we are at an extreme point in the cycle. There's 8 billion people and growing, a massive currency debasement, AI, maybe not after DeepSeek, but it has, up until this point, seemingly I think there's a lot of energy demand. There's a huge amount of metals demand if we have this green transition, and many of the real assets are below their incentive price. In addition, they are very scarce [slide 61]. They cannot be printed. Some of the most exciting areas in real assets to us right now are platinum and palladium [slide 62]. The market sees that mining is a horrible business, South Africa is a horrible place to do business, platinum and palladium have horrible prices, and that the demand for ICE [internal combustion engine] cars is declining.

We see a company that has a strong balance sheet, a 100-year mine life, it's the largest producer with the largest smelting and refining capacity in the world, a 125-year low in the platinum and gold ratio, and that ICE cars and hybrid cars are an important part of auto demand in the future. ICE and hybrids are going to be part of the mix, but we believe that EVs are also going to be part of the mix, and they need lithium [slide 63]. Lithium has fallen from $80,000 a ton down to $10,000. The market sees an oversupplied lithium market, exposure to Chile and regulatory risk, and depressed margins.

We see the best lithium assets in the world, massive reserves, the lowest cost reserves, and good upside even if lithium just gets back to $15,000 a ton, which is a conservative incentive price. Finally, the gold company with the most upside in our GAC portfolio, which is Seabridge [slide 64]. We've talked nonstop about how the market really dislikes non-producing, long-duration, money-losing gold companies. This one also is owner of a project that is very capital-intensive, and it needs to find a partner to develop it, so lots of uncertainty.

Our perception is that this is one of the largest copper-gold assets in the world. It's fully permitted. It has grown ounces per share nearly every single year, and has 1,400% upside to our risk-adjusted value, so huge upside. To wrap it all up, we believe that beauty is in the eye of the beholder, that Keynes and the market is wrong to value others' perceptions above their own [slide 65]. We are at extreme prices no matter what metric you look at. In some ways, we're the most expensive market ever. That does not portend good things in the future, good returns in the future. Our entire reason for being is to stay disciplined even when it is most difficult.

Our behavioral edge is really important at these inflection points, and we will not style-drift. As you can see, we continue to use volatility to our advantage [slide 66]. We added a lot more than we trimmed. We found a lot of companies in Asia to buy. In addition, the last six weeks of the quarter were very difficult for real assets, and we were buying more of our platinum and gold companies. You put our portfolio all together, and we have extremely cheap prices [slide 67]. We're trading at 0.7 times book value, 16 times earnings, price-to-cash flow of 5 times. On many different metrics, very cheap, and much cheaper than the market.

Same thing for the international portfolio, extremely cheap portfolio [slide 68]. Our portfolio continues to look nothing like the index, something that we are very proud of [slide 69]. And because the index names, as we've talked about, are overvalued in many ways, just because they're in the index, 70% of our holdings are not in the index. The same thing goes for international [slide 70]. Hopefully, we have given you a lot of things to think about. We're in that part of the economic cycle where I like to wear a helmet, according to our comic [slide 71]. So we we'll open it up to Q&A.

Mary: Thank you, Dave and Alissa. I want to give a quick note about the Q&A before we get started. On our last call, we received over 20 questions, which is fantastic. We're so thankful to each of you for your attendance and all of your thoughtful questions. To keep the Q&A session flowing and to be sensitive of everyone's time, I group similar questions together thematically as I moderate the discussion. This means I may or may not read each question individually, but 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.

Dave, Alissa, we did get a couple of questions prior to the call, so I want to ask those first. One of them was actually about South Korea, so I think at least one of our clients might be a little psychic and knew exactly what we were going to talk about. The other part of that same question, and Dave, I'll throw this one to you, did the DeepSeek sell-off provide any additional buying opportunities?

Dave: It's interesting. The market goes to all-time highs. Some news that may go down in history as having been important – didn't affect the market. You had the one day where it went down, but if I read correctly, every sector except for technology even went up on that day. When a company goes from $400 billion to $3.5 trillion, a one-day correction does not come close to creating a buying opportunity for us.

The stuff we talked about – the last year or two where more and more stocks, countries, sectors, industries are going down, they've been creating buying opportunities for which we are happy to have been taken advantage of. The almost non-existent correction of the last few days, probably like buying technology in March of 2000, it probably could be just the beginning. Certainly, we are not even close to wanting to buy most of the U.S. large-cap stocks.

Mary: Thanks, Dave. Alissa, this next one goes to you. Talk a little bit about the disconnect between gold miners and the gold price.

Alissa: If anyone can explain it to me! It's interesting that the gold miners, even with record gold prices, did not perform well. They were keeping up until the last six weeks. I think really it's, why own gold miners when you could own the Magnificent Seven? I think it really is that simple. For us, it really is that simple that it's an opportunity. We're buying more Newmont, we're buying more Anglo Platinum, we're buying all these companies that a higher gold price is a good thing for gold miners.

If the market temporarily gives us a better buying price, we will do that. In Dave's latest commentary, he pointed out that gold is up 80% while the gold miners are down 75% from the peak in 2011. You could buy Newmont or Barrick for a cheaper price than the S&P, and you get a better dividend yield, plus all the upside, should it actually re-rate to what a normal price for gold miners relative to gold. Then we still see higher prices for gold in the future, given all the money printing.

Mary: Along those same lines, one more question that came in before the call, the demand forecast for precious metals in general. Could you speak to that a bit?

Dave: We don't spend much time on demand from any one year to the next. Things like jewelry demand go up a little bit or down a little bit. The key is that sometimes people demand fiat currencies and other times they demand gold. Who knows when people will really start to lose faith in fiat currencies? When that happens, the demand for gold is many multiples of where it is now. As we tell people when we value these stocks, we say, what are they worth at $2000? What are they worth at today's gold prices? Then we look about, if it gets demanded as a monetary medium again, then the price is way, way higher. That is icing on the cake, not something we are paying for.

Mary: Next, we have got a lot of questions coming in. Just a reminder that if you would like to ask a question, please type it into the Q&A box. We're getting quite a few questions on specific gold companies. Let's start there since we're still already talking about precious metals. Could you give your current thoughts on Northern Dynasty? Dave, I'll throw this one to you. Northern Dynasty and especially potentially the impact of a new presidential administration here in the U.S.

Dave: It's maybe the perfect name to talk about this whole Shallow Hal, what's the market see and what do we see? The market does not like long duration. They do not like reserves that are not being pulled out of the ground immediately. They also don't like headline risk. They don't like to read negative stuff in the paper. Northern Dynasty being the largest non-developed copper and gold mine in the world, lots of potential. Will any of it get pulled out of the ground in the next five years? Absolutely not. It's exactly what people don't want, a long-life reserve.

It's been something where the first the NGOs didn't like this thing. Then they changed the mine plan, which is a good thing. Then the new mine plan, the Army Corps of Engineers spent two years studying it, said this is good, no harm to the environment. Then politics has gone up and down. It's been five years of fairly negative politics. The Trump administration has been up and down on it. The Biden administration had that and every other copper mine in the U.S. on hold despite the fact that they said they wanted copper as a locally sourced clean metal.

That may be changing now. In terms of politics, you've had the Trump administration saying they want to harness the resources of Alaska. They've been big on that. It's one of the first things they've done. They've made some hires that seem like it should play well for that. Outside of that, people used to say that the local peoples were against the mine, but the local peoples now are suing on behalf of the mine. The local government, the state of Alaska is suing on behalf of the mine. The Chevron case that was thrown out that basically in the past a political appointee could try to stop a resource being developed and that was deemed the rule of law. That's been thrown out.

In this Ben Graham weighing machine, voting machine, people have been voting against long-life reserves and voting against natural resources. Maybe people are going to start to weigh it. Certainly the political winds are starting to go back in favor of this. Should that happen, keep happening, the value of 40 million ounces of gold and 60 billion ounces of, or pounds of copper is a massive number. We're not out of the woods, but the wind's changing direction and it's got a lot of people feeling more encouraged.

Mary: Along those same lines, we mentioned Seabridge in the call and we have a question specifically about Seabridge. Are they actively looking for a development partner, and why would a major producer not buy them for their reserves now rather than bothering with partnering?

Alissa: We have been told that they are this close to getting a partner and unfortunately we've been told that for quite a while now. Time will tell when we see a partner. What we've said is that the best assets in the world will get developed. This definitely qualifies as one of the best assets in the world. Now, why would they not just buy the company rather than partnering with them? I'm sure they would like to, but Seabridge probably won't agree to that.

Rudi [Fronk] has always said that, the CEO of Seabridge, has always said that he doesn't want to just sell this asset for nothing. He wants to partner as well as take a royalty and have a reduced amount of CapEx. Hopefully he gets his way because we see the best option for Seabridge shareholders in that scenario as well. The worst thing would be as if we get bought out for a price that we think is way too low.

Dave: To expand on both of those, Northern Dynasty and Seabridge, and a lot of the others, they have long-life reserves, which to us is massive optionality. The longer the reserve, the more likely prices are going to go up. Other people are not finding the minerals, and so we like that. With Northern Dynasty and Seabridge, they both seem to understand that to try to build the mine themselves is going to be destroying optionality and requiring them to raise capital in a market that's not conducive to raising capital. We approve that both of them want to bring in a major. As Alissa says, it's a matter of when the majors come in, not if.

We've also talked about a marriage made in heaven. The majors tend to be good companies with decent balance sheets and good management teams. They understand operating and building and managing and running and the engineering and the chemistry and you name it. The problem is, people are not finding gold and silver and platinum anymore, and so these companies are shrinking companies. They can't possibly replace their reserves by finding it. These other companies we're talking about, they've got the reserves. That's nirvana. The problem is they don't have capital. They don't have balance sheets. They don't have the expertise. They can't build a mine. They can't run a mine.

Obviously the big guys that have the ability to get these mines built are going to buy the resources they need to build the mines. It's just a matter of when, and we talk a lot about how value investing requires patience, but when the upside is many multiples, the patience is worth it.

Alissa: Just one more thing to add to that. The acquisitions that we have seen in the gold mining space have really been between companies that are already producing and buying another company that's already producing. Newmont and Newcrest is a perfect example. These companies that are not producing are still trading, Seabridge included, are trading at massive discounts to what we think they're worth. Eventually later in the cycle when investors are clamoring for growth in reserves, not just growth in production, that's when you start to see more of these acquisitions happening.

Mary: All right. One more company-specific question in the precious metal space, and that's Platinum Group. Alissa, maybe I'll throw that one to you first. Can you talk a little bit more about Platinum Group?

Alissa: Yes. Platinum Group is extremely exciting. The cons against it, I guess the market perception is that it's in South Africa, and it has, just like Seabridge, just like Northern Dynasty, huge reserves, but is not in development yet and won't be in development for several years. We see also on the positive side, huge reserves, and platinum and palladium are not going anywhere. Platinum and palladium, we think, have demand both for ICE vehicles, for hybrids, but then also the money demand that we've talked about. Platinum, relative to gold, is the cheapest it's been in 125 years. We like all those things.

Management has done a pretty good job. They have done some work on getting some refining capacity and trying to figure out where they could send their ore, and there are some options in Saudi Arabia they're exploring. Again, same thing with Seabridge, same thing with Northern Dynasty, these high-quality assets will get developed. This is a very high-grade deposit. It has a structure that is able to be mined not through the labor-intensive type of mining that many of the South African companies have. There's a lot of advantages to this mine. It's just a great opportunity that the market doesn't see it, because it's not producing.

Mary: Thank you. We're going to keep going with some questions on real assets. That's surprising nobody. We have quite a few. I want to start with, are you taking positions in the raw commodities, gold, platinum, palladium, or only gaining exposure through the reserves that are owned by these mining companies? Dave?

Dave: Can you repeat that?

Mary: Are you taking direct positions in the commodities themselves or only gaining exposure through the reserves?

Dave: Through the reserves. We've earned spot commodities, effectively, with uranium, with uranium participation in Yellow Cake. Everything else has been through corporations that own reserves. And in all cases, it's been reserves that we think are undervalued and then companies that are undervalued relative to that undervaluation. When we own these things, the commodity is underpriced and the commodity in situ is way more underpriced. It's all been buying reserves in the form of publicly traded shares.

Mary: You mentioned uranium there, and we did have quite a significant position in uranium for a while. We sold out of it or reduced that position. We didn't talk about it on this call, but it has sold off a little bit. Do you have any thoughts on that? We have a very specific question on uranium.

Dave: Yes. We've talked about gold right now, where gold's spot is at one price and gold with the majors at another price, and the long-lived reserves are way cheaper. That was the case a while back with uranium. First uranium was way too cheap, so we bought it in all kinds of different forms, but at the bottom, people threw in the towel on long-lived reserves. They didn't like uranium, but they certainly didn't like long-lived reserves. That gave us the ability to continue to hold Cameco and Kazatomprom and Yellow Cake, but to add things like NextGen and Denison and Fission and now Paladin.

That worked out as we hoped it would. When things are going well, long duration becomes a good thing. Those stocks went up tenfold from the bottom to the top, and we sold them. Still have some Paladin, but we sold those high optionality ones when the price was higher. Then when the price got even higher than that, we started to sell some of the big ones. All of a sudden, we were finding that uranium is cheaper to hold than to buy through the companies that held it, and risk adjusting and everything. That's why we reduced a lot of it.

To your point, the price of uranium having gone from $18 to $108, I think it was, and back into the $60s, certainly it became more interesting again. Yes, we did start to buy back. Cameco, interestingly enough, has not corrected very much. The price from $108 down to $60-something for uranium and Cameco is about where it was where we sold it. To add to Yellow Cake and Kazatomprom and Sprott Physical and things like that, that's something we've been able to do. We always tell people volatility is our friend. It's not risk.

Mary: Do you have an idea what the rough allocation of the portfolio is to various materials, gold, PGMs, lithium, uranium, et cetera?

Dave: The gold and precious metals continue to be almost 25%. What's changed in the last six months is that it’s gone from mostly gold to, now we've got, what, 5%-6% in platinum, palladium. That's changed. That's all the same. The uranium is, what is it? 4%-5%, 5%-5%, maybe up to 6% now. We talked about lithium. That was nothing in the past, but we were able to buy a couple of names. One got taken out, so we're back to one. You got stuff to add?

Alissa: No.

Dave: Okay.

Mary: That sort of does it for our hard assets, real asset questions. I'm going to move to some more questions on emerging markets, some of these other areas that we talked about, emerging markets and non-U.S. stocks in general. Let's shift to some questions about some companies and the challenges of investing in those companies overseas. How much importance do you give to the fact that the entrepreneurial mindset in many Asian companies differs quite a lot from U.S. companies in relation to the shareholder importance in management decisions?

Dave: We love the fact that the market often thinks binary: good / bad. Nothing in between. Sometimes that's correct. Rarely is it correct. You'll hear, "Oh, Asia's a bad place. They're not entrepreneurial, and they have lousy corporate governance”. There's a grain of truth in it, but also, in many ways, completely wrong. If you look at many Asian companies, their money is in these stocks. They have their family's wealth all in these stocks. That's a good thing. People can say that maybe it's not completely aligned. True, but it's very much aligned.

Where the U.S., it's amazing how companies either don't own the shares, or they have shares that they gave to themselves with a bunch of cheap options, and then they turn around and sell nonstop. It's basically just transferring wealth from shareholders to management. I would say Asian companies, in many cases, are more aligned with the shareholders than U.S. companies are. Also, entrepreneurial spirit, that's one thing we love about the U.S. We have great entrepreneurial experience and creativity. We're unmatched in any way. To believe that the Chinese and Indians and stuff are not very hardworking, creative people that have created many, many great, great companies is just wrong. And Korea’s had a fair amount of [entrepreneurial] individuals.

At the peak of the Japanese bubble, for those of you that are old enough to be around there, people said we can never compete with them. They're out-inventing us. They have a long-term thought process. They're willing to invest for the long-term, and we can't. They're disrupting this industry and that. This is the market, I think, just changing their mind. It's not that people that live outside the U.S. are not entrepreneurial and not aligned, and look at how many successful people in the U.S. actually came from Asia. I think people are right to have a high opinion of the U.S. entrepreneurial thing and wrong to think the rest of the world's inept.

Alissa: Then I would just add that the market is putting this premium on U.S. exceptionalism, this premium on innovation, where many of the businesses that we are buying are maybe boring, but the barriers to entry are very, very high. We're owning railroads and telecoms and utilities where the risk of disruption is very low. Whereas Dave talked about earlier, when you are in technology, a lot of tech companies, they were the leaders at one point and they were disrupted 10 years later. Many of the companies that we own have very low risk of disruption.

Mary: All right. Thank you for that. We have another question about the Japanese trading companies. Warren Buffett, of course, very publicly took a stake, has taken a stake in some large Japanese trading companies. We have a question if we've looked at any of those.

Dave: Yes, Warren Buffett's very smart and better than us in so many ways. 20 years ago with railroads and 10 years ago with Japanese trading companies are some of the few years where we beat him to the punch. We had made a lot of money in railroads when he finally came in and made his big investments. We had already made a lot of money in the Japanese trading companies when he came in a few years back. We continued to hold it after he bought. Mitsubishi and Mitsui were two core positions. They were big positions for us. We liked them, and others didn't. It was sort of the thing oh, they're conglomerates.

As Alissa was talking about earlier, people can hate conglomerates. Those were two that had lost money, I think, once since the World War II. Book value had grown so much, and they also owned world-class assets all around the world. We bought them and then he came in, and he saw the same things we saw. He has even, I think, been very smart. He's borrowing in yen and buying the Japanese trading companies that tend to be a lot of dollar-based stuff around the world. He's doing very well with that. He owns five of them. We had three on the approved list.

We loved them. Now, we like them. But now, we're finding that the market is warming up to Japan and hates Korea. LX Holding and LX International and LG, as we just talked about, GS Corp, these, I think, are priced the way the Japanese trading companies were a half dozen years ago, so we prefer those. We still have high respect for the Japanese trading companies.

Mary: All right. Thanks, Dave. Alissa, I'm going to throw this next one to you. Do we need a strong dollar reversal or the dollar to weaken versus international currencies in order to see the investment theses on many of our stocks work out?

Alissa: We don't need it. It would help. I think a lot of these businesses are just way too cheap as they are. We showed in the presentation some of these multiples, five times earnings and half of book value. The dollar has already strengthened so much. Could it strengthen more? Maybe, but I think that it's likely that it could also go the other way. That would be a nice tailwind, but we don't need it by any means. Then on the real asset side, we showed that comic of all the currencies heading towards the bottom. Maybe the U.S. is the cleanest dirty shirt, but the gold prices is showing that the U.S. dollar, even though it's strong relative to other currencies, it's losing ground to real assets.

With all of this monetary debasement, real assets are tangible assets. They may not be in our real asset part, but telecom companies, utilities, things that have infrastructure assets, things that are real and tangible, that's where we believe have the best upside for the next 10 years.

Mary: Alissa, I'm going to stick with you for this one as well. It's about quantifying company risks in parts of the world that seem a little bit maybe more risky than others. It's actually a question specifically about gold company risks in Africa, particularly in countries like Mali, where there's a lot of gold, but also a lot of conflict. I think the bigger question that this raises is how do you risk adjust for a lot of these things that we're talking about, challenges of investing overseas, especially in emerging markets?

Alissa: I don't know the exact quote, but it's like things that can be counted don't always count, and things that can't be counted count a lot. Basically, our risk adjustment process is not perfect, but we're not aiming to be perfect. We're aiming to be not wrong. When the market is really binary, and they'll just say the U.S. is exceptional, no other country deserves to even be noticed, that's binary. Same thing with gold mining companies or where they're not producing or producing, when the market is very black and white, that's the opportunity.

With South Africa, for example, is it a 10? Is it a 9? Maybe the U.S. would be, but no, absolutely not. Is it a zero? Also wrong. There's a lot to like about, even though South Africa can be a mess, the companies have done very well in that country, and some of the share prices suggest that. The other thing is that we are not going to know which country is going to be the country that decides to take more of the economics. For example, when everyone thought that the DRC [Democratic Republic of Congo] was not the place to be, we made a lot of money in Ivanhoe Mines.

Everybody for a while thought Mexico was very mining friendly. They thought Chile was very mining friendly. Those two countries have actually increased their tax rates and have done some things that are not necessarily friendly to shareholders. You don't know. You can risk adjust, and we do risk adjust heavily for geopolitical risk. For example, in South Africa, we ask for a 70% discount, and then we want big upside to that. Then you diversify because you don't know which country is going to turn out to go your way or which one is not going to turn out to go your way. We've made a lot of money in countries that people have deemed too risky, and it turns out that they weren't as risky as the market thought.

Dave: To add a little bit to that. So we spend a lot of time risk adjusting for all the geopolitical stuff and everything Alissa talked to. The riskiest thing for a gold miner is to not own gold. A lot of companies have good management, and they're out exploring, and people will pay up for those, but it's like 1 in 3,000 people looking for gold, find it or something. It's really bad math. That's much riskier than people think to be an explorer. To actually own the stuff, that's less risky, and then we do risk adjust heavily for that.

Alissa mentioned things like the DRC. Not only did it work well, but you could see it. We flew there, and the people clearly loved the company, loved the mine. They were so proud of the work they were doing and so proud of the farms and the microfinance and other things that was booming around it. They were welcoming it, whereas it's places like the U.S. and Canada, especially the U.S., have become so difficult to get permitting. Hopefully, as people have brought up, that turns around. It's important to look at the business you're in, and some businesses are riskier in emerging markets, and others are riskier in developed markets, so we pay attention to that on every single investment we make.

Mary: Right. Thanks, Dave. We have quite a few questions still left to go, so I'm going to keep asking them. A question on the disconnect between rising earnings but lower margins in South Korea. Specifically, could you comment about KEPCO, Korea Electric Power Company?

Dave: KEPCO, we can talk about. We just talked about mining and some work out better than you think, and utilities have been the same way. We showed you Eletrobras, and it's gone nowhere for a lot of years, but we've made a lot of money on it, because people changed their minds. EDF in France was one that went nowhere for a lot of years, but we made some decent money on it, and then the government bought it out. Other places in emerging markets, we've seen things work out and others not work out. And as a portfolio basis, it's worked out really well, because we could do really well when things are going well.

The idea is that regulators in the U.S. will cap the returns you can make, and in some emerging markets, they let you make a good return and force you to make capital investments. In, say, Brazil, they for a while kept them way too low to subsidize what people were paying. That changed, and it went up. Korea has a long history of subsidizing industry, which has worked well, and that's been to KEPCO's disadvantage. Also when the world was so negative on nuclear, they had nuclear that they weren't able to run. Meanwhile, they were having to pay lots of money for energy from other people while they're not even running what they have. It's been a horribly hostile environment for what they do.

It's a lot of things not to like, and because of that, was it a 70% or 80% discount we put on our value? Meaning if things work out, we'll make, three, four times our money on this, and maybe things are starting to improve. We've let them raise their rates a little bit, and the mood towards nuclear rather than you're going to have to shut them all down, as we want you to build more of them and things like that can play in the favor.

It's a tough environment. We don't like that the balance sheet's too stretched. We don't like that, but the winds might be shifting in the right direction, and the upside is humongous. They are a very strong, dominant company in what they do. And as we talked about nuclear power and the world we're in, selling cheap, clean, carbon-free electricity, that's not 100% of what they do, but it's a big part. Could be a very good thing.

Mary: Dave, I'll stick with you for the next question. We have a couple of questions on energy. We were asked, I believe on the last call, if not, it was the prior one to that, about offshore producers like Transocean. Have we looked at those any further, or is there any new color on that space? We have a question on that.

Dave: We continue to look at a handful of companies in that space, and so don't be surprised if we end up with something in the future.

Mary: Alissa, I'll throw the next one to you. It's a question about coal. Would we revisit the idea of coal, but specifically a company that we owned many years ago at this point called Peabody Coal, would we revisit that idea?

Alissa: We'll revisit anything that has enough upside. Coal has done very well. We have recently been buying back the Chinese coal company that we've owned for a long time, China Shenhua, which has some of the highest quality coal in the world, massive reserves, and it's extremely cheap. We think that coal is- unfortunately, it's not going away anytime soon. China still, 60% of their energy demand is coal.

We see a lot of opportunities in natural gas, as natural gas is an amazing substitute, and we've seen that the U.S. has been able to reduce their carbon emissions a lot just by substituting from natural gas to coal, and we think that emerging markets have that same opportunity, like India and China. That's going to take time, and so coal is continuing- it's going to be demanded. Owning high-quality coal assets for a good discount is something we will be interested in now and in the future for sure. We'll have to look again at Peabody, though.

Dave: I should probably keep my mouth shut, but we talk about risks in the U.S. versus other countries, and I've been doing this over 43 years. I've seen shenanigans, and I've seen things where they don't work out like you want in Kyrgyzstan or in China or things like that. I have never, ever had anything as sleazy as what Peabody did in the past. It should have been illegal, and so we would put a bigger discount on that management team than most any other management team, but at a price.

Mary: All right. Next question. Actually, we just got, while you were talking about that, got another question, Dave, about some of the oil companies, specifically Canadian Oil Sands. Are we looking at any of those at the moment? We'll do that question, then we'll move on.

Dave: Yes, the same thing there. They have such optionality to the price that they get very cheap, and we've been happy to own them in the past. MEG's been one of the ones that we've used the most, and it's still reasonable, and we like it.

Mary: One final, "are you looking at?", question before we move on to some bigger picture stuff. Are you looking, again, puts on the S&P, given recent cheapening of volatility?

Dave: Yes. It's all about price, and so every now and then it looks like the volatility's permanently higher. Every now and then it drops back down, and we're able to do 13-ish, which is not as good as the 8 or 9 at the very bottom, but there have been opportunities to buy out for February and March, so we've done that.

Mary: We're going to move on to some bigger picture questions, and Dave, I'm going to throw this first one to you still. We have a client who writes, "Curious about the state of the economy and a possible recession. Some experts and notables, such as Jamie Dimon, have been expecting a pullback the last couple of years. Are we looking at a soft landing, worries over?" Be interested in your input on that.

Dave: We're 100% bottom up, but it is interesting in a macro top-down world. I think it was a year ago that- I don't know the exact number, but 53 out of 53 economists all said we were going into a recession, and instead of going into a recession, we had back-to-back 25% moves in the S&P and a pretty strong economy. Now we have a few trillion more in debt than we had then, and a lot of moving parts and a lot of change going on. Those are things that usually scare the market, and I think the pull now is out of four or five dozen economists, zero expect a recession? The cynic in me would say, that means a recession's on the way, but we don't put anything into that. We are more in the Buffett-Munger mode. We are going to buy good companies at good prices. Recessions will come and go, and we're buying things that should do well over the long run. No strong opinion there.

Mary: Alissa, I'm going to throw the next one to you. It's also a big-picture question. We frequently refer to debt-to-GDP as a way of sort of measuring risk in the economy. Michael Howell of Crossborder Capital claims that debt-to-liquidity is a better measure of risk than debt-to-GDP. Do you have any thoughts on the debt-to-liquidity metric?

Alissa: I don't have an opinion on that. I can explain why we think debt-to-GDP is risk, which is, the more debt that you take on, it's harder and harder for your economy to- that marginal amount of debt doesn't boost your economy that much. At the levels that we are at, a lot of history suggests that the only way out of this is by monetizing that debt. That is the easiest way for governments. They can either default or they can debase. That's one of the reasons why we think that gold and platinum and palladium, these things that you cannot print, have value as a good store of value, as a good money.

Because they are so ignored by the market, because people have absolutely no– there's no risk, they believe, to owning fiat currencies. They all believe that interest rates are going back down. These real assets are trading too low. Then, of course, the mining companies that own these real assets are at a huge discount to those precious metals. Debt, like anything, can be a good thing, but it's a double-edged sword. It can create a lot of risk. That's for companies, and it's the same for an economy.

Dave: It is interesting, the GDP is flawed, but the measure of the economy, the economy is what it is. The economy needs to support all the workers and everybody out there. The economy needs to support the government. The government's a bigger claim now than it's ever been, really. Then on top of that, the economy needs to support the debt. The debt is now way bigger as a portion of the economy than it's ever been. After you've supported the government and the debt, after that comes the shareholders, which now have a bigger claim on the economy than ever before too.

As Alissa suggests, it's all about figuring out who the loser is, how much of the obvious losses that are coming are going to be dealt to the bondholders, which is what history suggests. If not, it's the equity holders because they're at the end of the line. All the claims on the economy are going to be very, very tough for the economy to handle.

Mary: I'm going to stick with you. We have a client who writes, "Very concerned that crypto is another tulip bulb scenario. Other than demand by greed-driven investors, is there any other reason to own crypto?"

Dave: That's a very good question. In '99, people were saying the internet's changing everything, and it's going to collapse. Whether some of these companies were going to prove good for the long run, some of them did, but there was a whole bunch of frothy stuff that all went to zero for the most part. Now we have an environment where Bitcoin smart people think it's good. Whether they're correct, I don't know. When you start seeing Dogecoin and Fartcoin and Buttholecoin and people read Dan Oliver's stuff, it's worth reading. It's really great. 90-something percent of these things have to go to zero. It's completely a bubble.

Smart people like Bitcoin. I'm not going to say they're wrong. I'll be agnostic on this, except for there is no intrinsic value there. Nothing's backing it. Are we going to put 100% of our trust in an algorithm? Probably not. We'll see what Bitcoin and Ethereum do. Gold is a proven store of value. Maybe Bitcoin goes up huge. Maybe it goes to zero. Gold's not going to zero. Owning, as we've talked about, railroads and telecom companies and things like that, they're not going to zero. The market action suggests that crypto is more of a, as people modern lingo, a risk-on asset than it is a store of value. I tend to agree with your sentiment, but a lot of smart people like Bitcoin. We'll see.

Mary: Alissa, I'm going to throw this next one to you. We had a late-coming question back to our energy theme, so I want to address that, and then we'll have two more questions after that to wrap up. The question back in our energy theme is, in the natural gas sector, do we have a favorite company, or where are we investing in natural gas?

Alissa: *Microphone technical issue*

Mary: I think we're having some sound troubles hearing you, Alissa. Do I need to throw this one to Dave?

Alissa: Yes.

Dave: Sure. I'll take it. It's her headset, maybe. We like natural gas, and it's one place where the U.S. has a competitive advantage, so that's where we're invested. Also, we've talked about uranium and gold, where the long-duration assets are underappreciated. We've preferred to own the long-duration asset, which played out very well for us, and Range [Resources] petroleum, one of our favorites. We think that still has good upside. Southwestern [Energy] merge, which ultimately became Expand [Energy]. Alissa was stating that we're not a big fan of the name Expand.

Usually, commodity companies get in trouble when they try to expand too much, but we still think they're a good company as well. There's a few more we're looking at. Its stocks are up big from the bottom, still down huge from the top, and the long life to gas reserves in the U.S. and Canada still have a lot of promise.

Mary: We have two themes left in our questions, and so I'm going to start with-- We have several questions about catalysts, but more specifically, what is the catalyst for value to outperform again? If passive's distortion of U.S. equity markets is a big part of what's driven the underperformance of value, can anything unwind that distortion, and will there be a catalyst then for value to outperform again?

Dave: Short-term catalysts aren't something we spend a lot of attention to. Usually, the markets are up a lot before people see the catalyst. We figuratively say that gravity is its own catalyst. As they say, trees do not grow to the sky. Everything has a worth. This whole presentation has been more of Ben Graham's things, our voting machines, but eventually they must be weighed. We've written pieces and talked about it. In a semi-efficient market, passive is a great thing. Why pay the management fees? Why pay the taxes and the trading costs and everything else?

Once people start doing passive and stop doing active, then even the assumptions of an efficient market are gone. Nobody can believe that a market that has money pouring into passive is efficient. People that build the indexes or invest in them, none of them are saying we did research on the companies. None of them are saying we spent any time trying to appraise it. The more they go up, the less attractive they are, but they become bigger parts of the index. As manias go on, indexes become less efficient and more overvalued, more crazy, if you will.

People liked the big index stocks in ‘72, and then they underperformed for a long time. They loved passive investing in the late ‘90s even more than they do now. If they hired an active manager, they actually wanted you to have low tracking error. Why would you pay somebody a fee to have low tracking error? Now, at least, people tend to realize that, yes, sure, I'll do passive with some of my portfolio, but I want my active managers to have tracking error to look different. Passive right now is in no way representative of the underlying market.

Passive is a once good idea that like anything, too much of a good idea becomes a bad idea, and I would say in this case, a dangerous idea. Trillions of dollars pouring into stuff with no analysis, no attempt at fair prices, and now we're talking massive parts of what's driving the market. Prices are too high for the index, and it's woven into our DNA that the prices that are too high eventually come down. ‘99, ‘98-99, was very painful for value investors, and all of a sudden a weekend to March of 2000, there was no news, nothing. It's just these massively overpriced index stocks started to fall. They underperformed massively for the next seven or eight years.

Our stocks were going up big while they were going down big. The bifurcation seems equally as big now. I suggest that if the world's a cyclical place, index stocks will drop to what they're worth. Some of the non-index stocks will rise to what they’re worth. I think it's when, not if, and it's extended. I will get sooner rather than later, but I might have said that last year.

Mary: All right. Along the passive investing, we have a client who wants to know if we follow the work of Mike Green on passive flows. If we don't, I think they recommend that we do, but it's a work on passive flows and impact on valuations. The work of Mike Green.

Dave: No, thank you. We will take a look. Look forward to it.

Mary: All right. Our last question today, we've actually been talking about quite a bit recently. You mentioned, Dave, that, a lot of value investors have capitulated, for lack of a better term, moved away from value. We have a question on, one of the people that we've talked about, internally is David Einhorn and some of the things that he said and how he's talked about the functioning of the market is broken. We have a question specifically about our thoughts on what he has said.

I'll just read the question. Dave Einhorn has talked about how the functioning of the market is broken given indexing size of institutional AUM, putting money to work that will move the performance needle. What are your thoughts on that?

Dave: Oh, no, we would tend to agree, but we would view that as a cyclical phenomenon. I think the market was functioning poorly in 1929 and poorly in 1972 and poorly in 1999. I just rewatched The Big Short. The mortgage market was functioning poorly in '08. That stuff has to end. It feeds into the last question. It will begin functioning well again. It has to. We're waiting for that day. Hopefully, it's this year.

Mary: All right. That is it for the questions. Is there anything else, Dave or Alissa that you would like to add?

Dave: I think that's about it. It's been a long call with great questions, and we really appreciate that. It was nice to see 2024 in the rear-view mirror. As we've talked about so many things, you're looking so positive for a lot of the sectors and countries we're in and looking forward to it. We appreciate everybody's support and partnership and look forward to talking again soon.

Mary: All right. Thank you everyone. Have a great evening.

Dave: Thank you.

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.

The commentary represents the opinion of Kopernik Global Investors, LLC as of January 30, 2025, and is subject to change based on market and other conditions. Dave Iben is the managing member, founder, and chairman of the Board of Directors of Kopernik Global Investors. He serves as chairman of the Investment Committee, lead portfolio manager of the Kopernik Global All-Cap and Kopernik Global Unconstrained strategies, and co-portfolio manager of the Kopernik Global Long-Term Opportunities strategy and the Kopernik International strategies. These materials are provided for informational purposes only. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. These materials, Dave Iben's and Alissa Corcoran's commentaries, include references to other points in time throughout Dave's over 43-year investment career (including predecessor firms) and does not always represent holdings of Kopernik portfolios since its July 1, 2013, inception. Information contained in this document has been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed. The views expressed herein may change at any time subsequent to the date of issue. The information provided is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any investment or security.

[1]The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Kopernik Global Investors, LLC. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.