



MACRO Voices
with hedge fund manager Erik Townsend

Mike Alkin & Guy Keller: Uranium Special

Date

Erik: Today's topic is uranium and I have two expert guests joining me. First, Mike Alkin is fund manager and founder of the Sachem Cove Special Opportunity Fund, a fund which invests in uranium. Guy Keller is the portfolio manager for the Nuclear Energy Opportunity Fund for Tribeca Investment Partners.

Mike prepared a slide deck, actually shared the pitch deck from his hedge fund with us registered users will find the download link in your research roundup email. If you're not a registered user yet just go to our homepage at www.macrovoices.com look for the red button that says looking for the downloads right above Mike and Guy's photos.

Gentlemen, thanks so much for joining us, I want to start with kind of the big picture because I think a lot of people kind of felt like, okay, nuclear energy, really important industry but then Fukushima happened. And boy, even though people like you and I who tend to focus on logic and reasons understand that nuclear energy is still the safest form of energy we know how to generate.

Frankly, the world doesn't work on logic and reason it works on public sentiment and emotion and that emotion was so strongly anti-nuclear that a lot of people just wrote off nuclear power and said, okay, this industry is done at this point. How should we be thinking about the nuclear power industry? Does it have a future? And how much of a future does it have? Let's start with Mike Alkin from Sachem Cove.

Mike: It's an excellent question, Erik. Clearly, the electric utility industry around the world plays second fiddle to the alternative energy markets, marketing people and it's been this way going back since the beginning of time, the word nuclear scares people. And as you mentioned in your question or your comment during the question was it is the safest form of electricity generation per terawatt hour of energy produced, but it's not viewed that way.

You've had three major incidents, you had Three Mile Island in the US in the 70s and then you had Chernobyl, which people know about in the mid 80s and then Fukushima, as you mentioned, in March of 2011. There have been very few actual deaths from those but at the end of the day, there has been

a big push and a big sentiment change the last couple of years towards nuclear power, and that big push is driven by climate change.

And when you look at the facts, the reality is nuclear power is clean, safe and reliable and science shows that if you want to achieve these climate goals over the next few decades you can't get there just with renewables, it just doesn't work. There's not enough, there's too much intermittency, storage costs are very expensive to store the electricity. And many scientists and even politicians are starting to recognize if we want to get there and achieve these goals, nuclear power has to be part of the playbook.

And so for the first time when Fukushima had its problems in 2011 at the time Japan was 13% of global nuclear power and they had 54 reactors, and all of them over the next year or two went offline. And you're still not back, you only have about nine operating reactors that are online in Japan, so you're quite a way away from getting back to where they originally were, but for the first time in the past year global nuclear power output is above pre-Fukushima levels. And that's because there's somewhat of a nuclear renaissance that's taking place you have over 50 reactors around the world under construction, a half a trillion dollars that are in process construction.

And so you are seeing people recognize that nuclear needs to be part of the playbook to achieve climate change, it's safe, and importantly it's pretty much 24/7, it's there, it's reliable. So you are seeing a I wouldn't say a major sea change, but you're seeing an acceptance of nuclear power needing to be part of the next.

Erik: Guy, what would you add to that?

Guy: Yeah, thanks Erik. I mean, I think Mike's made some fantastic points there and the point to really ram home is that as long as achieving a low or zero carbon future remains the goal of global society, then nuclear energy cannot be ignored. It has to have a part to play because it is 24/7, low carbon or almost zero carbon baseload electricity and we're getting 60 to 80 years out of these reactors now. So when you talk about sort of post Fukushima, when the general public want to get their science from 20 years of watching The Simpsons, and more recently of watching a bit of HBO disaster porn on that Chernobyl series, you know that it does entrench bias and beliefs.

But I point to just the number of high-profile environmentalists and in the United States over there, there's one very prominent man who basically wrote the book on anti-nuclear who's done a complete 180. And has now, come to the conclusion that for the world to be truly carbon neutral, it needs nuclear. And down here in Australia we have the same thing where there's a growing band of scientists

and environmentalists who were anti-nuclear energy who are now realizing as well that there needs to be a part to play in the future.

So as I said to Mark's point that that sentiment is changing, now we're seeing that via that and I think there's also with political acceptance down here in Australia. There's much more of a of a dialogue around uranium mining, and potentially future you know, nuclear provision, nuclear power provision, as new technologies come into play. But you know, we've certainly noticed that change in the last two or three years.

Mike: And Erik, if I could just jump in real quick, if you look in our deck on slide eight, we talk about the days of full power of different generating sources, nuclear generates about almost 350 days a year at full power. And you compare that even to coal and natural gas where it's a little over 150 to 175 days, and then you get down to solar and wind, and you're looking at less than 100, and a little over 100.

And a very interesting example would be in Germany, where Germany post Fukushima decided they were going to wean themselves off of nuclear power which was a significant portion of their electricity grid. So 2012 to today they have spent hundreds of billions of dollars to get there and what you've seen is their carbon output is neutral and the cost of electricity is up four times. Why because the renewables can't be there all the time so they've actually had to build some coal and so it's just a very difficult thing to either eliminate nuclear power, or to not include it in your future goals.

Erik:

Now, there's something that I'm quite certain has collapsed since Fukushima and that is investment capital coming into this industry. And that's resulted in just a tremendous collapse in the size of the mining industry and I'm sure you guys can give me some statistics on that but why don't we get to how big is the uranium mining industry?

And let's pretend that we just need to run the existing power plants forget about even building any new ones because that's obviously somewhat politically contentious. Is there enough capacity in the existing mining industry to service the existing nuclear reactors that are still in service?

Mike: So it's a good question, Erik, the title of our deck is "Climbing Wall of Worry Prices Everything", so capacity today exists but nowhere near the price that that capacity can produce profitably. And so when you look at the amount of less than half of the miners in the world today at these prices, in spot price at 30 and then you go a little bit out on the curve, the long-term contracts are a little bit more, only about less than half make money.

So it's not so much the capacity, it's the price at which that capacity can be productive and profitable. And that's where you know, you're talking on average the marginal producer needs to make about \$50 and so you're at you know, you're at a price today of \$30.

So, yes, there is capacity out there but the incentive to bring that capacity which has been cut, you've seen 25% of world supply bid cuts since the end of 16. That capacity needs a price incentive to be able to produce and that's the opportunity that we see in uranium, it's the price will incent production if it doesn't the some reactors are going to run out of fuel.

Erik: Guy tell me about the size of the industry. How much of a collapse have we seen in the market capitalization of uranium mining compared to where it was? I don't know, pre-Fukushima sometime.

Guy: I mean, it's a fraction of what it was in the last bull market, I think the statistic a lot of people throw around is there was around about globally 500 listed opportunities had something to do with uranium and now there's probably 50 of which maybe only half of those are investable. When we looked at the opportunity so I'm also part of our larger Global Natural Resources Fund, which is from that fund is where we started looking at the uranium opportunity.

And we could not make an investment case work in that fund to the extent we wanted to because the fund was too big and we wouldn't be able to get the position sizes that we needed. So that's why we ended up spinning out the smaller nuclear energy opportunities fund, just so that we could have a concentrated portfolio of exposure that wasn't going to mean that we were substantial shareholders in every single thing we moved into.

Mike: And Erik, if I could just go back to the question about enough capacity. You know, one of the things when you talk about the uranium mining world, you have to have a discussion about Kazakhstan, the country of Kazakhstan, and the state-owned entity called Kazatomprom. And because Kazatomprom has a little over 20% of global market share, there are several joint ventures in Kazakhstan where they participate in so in the country of Kazakhstan it is about 40%.

And then there are some other state on producers that you have like the Russians, the Chinese, the Uzbeks, the French. Do a lot of lot of times people will say, well, it's state owned production and that can meet all demand because they're not price sensitive. Actually, the Cossacks have gone, they floated now 25% of the company starting back in 18 and they've been incredibly supply disciplined.

And when you look at all of the productive capacity in the state-owned entities, it's running at about 70 in pre COVID, about 70-75% of capacity, because it wasn't incentive at price. But one of the things we

do is if we were to look at all of the state-owned capacity in the world, which also includes we include an Olympic dam, which is the big copper mine owned by BHP where uranium is a byproduct.

But if we included all of that, and we included all of the production that comes out of some of the care and maintenance mines that MacArthur River does not come back, which is a big mine owned by Cameco. But we include cigar lake and other mammoth mine owned by Cameco, when you start including these back into the mix, when you include all of these pounds being produced, you're still looking at a few hundred million pound deficit over the next decade. And you could see that in our slide deck, we start talking about it from slide 22, to 25, or 26.

The reality is, there is let's use some round numbers over the next several years and when you talk mining, as you know, these things could take 15-20 years to find, develop, permit and bring it into production. So a decade is tomorrow you're looking at a structural deficit right now of over 30 million pounds per year, but that keeps growing because you have some mind depletions that come on. But as the price stays low and it doesn't incent the development of these new projects, you're talking deficits that can stretch out into the 40-50 million pound per year range.

Now there of course, there were some secondary supplies but in round numbers, you're talking 200 million pounds of demand. If you were talking the Cossacks running at full production, all the state owned folks running at full production, you still are 10s of millions of pounds annually short. Including secondary supplies that could come into the market, which would be a structural deficit for many years to come, and again, the elixir for that is price.

In the last cycle, you saw the price of uranium go from \$10 up to \$137 in the spot market over a few years period. If we were to look at all the mines that could come online, that could meet all the all the demand needs we estimate you're probably in the \$70-75 range.

Now, that wasn't too different from last cycle but what happened, fear, fear ruled the day and utilities were contracting like there is no tomorrow they normally contract, you know, your consumption, but they were contracting for years at 120-130% up to 150% of their annual consumption over multiyear contracts of 7-10 years. So there is supply out there but price plays a huge role in it and time because the longer it waits, the less uranium that's going to be available, there's probably \$4 billion worth of mines that need to be constructed and at these prices, nobody's financing that.

Guy: Yeah, sorry. But also I just I think just to add to Mike as well, it's management, its permitting and its jurisdiction as well. I mean, there's not too many management teams left in uranium that have successfully bought a mine in the last 10 years, there's jurisdictions where on a headline basis they look like a safe and friendly do.

I mean, Australia is a perfect example, Australia looks like a great friendly uranium jurisdiction. But when you go and delve down into state by state, if you're in the state of Western Australia, Queensland, you've got problems, so price.

Then assuming you can get invested in a capital investment and you've got a management team that can actually go and construct the mine you've then got, there's still a whole lot a bunch of hurdles. So if the price responds tomorrow for example, that deficit is not magically fixed in 6 to 12 months, it's much longer process.

Erik: Mike, I want to go back to what you said a minute ago about these contracts that they're buying uranium from. As a futures trader, I remember a few years ago getting interested in uranium thinking I don't need the ETF I'll just trade it on the futures market. And then I look there's no liquidity in that contract, I don't know why they even have it listed.

So, how does this market work? You mentioned the spot market who's actually buying and selling uranium? And what are the terms that that occurs under?

Mike: Great question, and it's one of the most complicated aspects for people to get their head around who are coming into the market to learn it. So typically, for nuclear power plants, security of supply is paramount. And just to give some context around what fuel buying is, if you're running a coal fired or natural gas fired power plant the feedstock that gas or coal is probably 80 to 90% of the costs.

For uranium, the front end of the fuel cycle and it goes through many steps, it comes out of the ground, it's mined, it's then converted to be called something called UF6. And then it's enriched, which everyone has heard of enrichment, and it's fabricated, and then it winds up at the plant gate in fuel rods. Well, that takes a couple of years and that front end is about 20% of the operating costs versus 80% and 90% for the other for the fossil fuel plants but the uranium itself is mid to high single digits of the actual cost.

So it's not as significant input costs and so historically, because security of supply, there's no substitute once you build a plant, you spent several billion to build it, you have to have uranium. It takes a long time, there's fires, there's floods, a lot of stuff happens that typically 75-80% of this industry is driven off of long term contracts that are 7-10 years and sometimes many years longer than that.

And so what you saw in the last cycle was you had a lengthy bear market and price had even gone down to seven at one point but it was bopping along in the early 2000s at \$10-\$14. And when you

started to see that, and again, not a lot of pounds trading and spot inventories were had been worked down over the years. And then you started to see there was a flood at one mine there was a fire at another mine, there were a series of events that took place that scared the fuel buyers, and they were going out and contracting as I said earlier at 120 to 150% of their annual consumption needs.

And when you look at that what they did is those contracts that started in 2005-2010, they started to roll off in the middle part of the teams but what happened where there are two things that were occurring in the marketplace that where one was anticipated, one wasn't. Nobody anticipated Fukushima, so at that time you had over 20 million pounds per year 13% of world demand all of a sudden kind of go offline. And so when you saw that you saw utilities who had contracted heavily were covered out for the years and that created a buffer for the mining companies.

Everyone assumed at the time in 2011, that the Japanese would come right back online, how can they not it was almost 30% of their grid? But they didn't. And they found alternative sources to generate electricity more expensive, but alternative. And so the miners were continuing to explore, develop and produce throughout the early 2000 teens and starting in the mid 20 teens.

And then you had what they were anticipating was that this down blending program that started in 1993 called megatons to megawatts. There were thousands of anti-nuclear missiles, ballistic missiles, that the US government was afraid that those missiles would wind up on the black market. So they incentivize the Russian government to down blend them and they would send 20-25 million pounds a year of uranium into the market, well, that was scheduled to go offline in 2013.

So, as Guy mentioned earlier, the planning that goes into these, there were as many mines planning on coming online, because that program was going offline. But then Fukushima happened, but you couldn't stop those programs, so you saw a new production coming online into the downturn. And so what hit a spot price in 2007 of \$137 by Fukushima, it was \$70 and it just kept going down, but then something in the market had occurred that you hadn't seen before.

Because interest rates were at the floor what you started to see was financial intermediaries come into the market and introduce something that commodity investors are familiar with. But what really wasn't in the uranium market was the carry trade and so in the world of physical trading of uranium there's only a handful of traders, and most of them don't have much of a balance sheet. And they trade this uranium back and forth very little volumes in the spot market.

Like I said, maybe only 20% of annual volumes are there but they trade for 15-25 cents a pound back and forth. But then what they were very smart as were the utilities they said, look, there's a lot of oversupply in the market there's new production coming online. Why when these contracts expire

should we enter into new ones let's see what the market settles out there was excess supply in the market.

So these traders would go out and enter into a forward carry trades a couple of years out on the curve. And they would say, okay, well mister utility missus utility we will enter into a two year deal with you, I'm making an example, enter into a two year deal, we'll buy the uranium, we'll carry it and we'll charge you. Some will charge you a little bit out on the curve, we make a little bit of money, and everyone's happy and then in two years from now, let's revisit, we don't see a reason why the price of uranium should go up and they were right because there was that excess supply.

So you saw what was contracting in the 2005-2008 period of 120-150%, you saw in the mid-teens, even continuing to up until today, contracting into 30% and 40% of annual consumption. So they weren't replacing their consumption, they were drawing down all these excess inventories that built but the deliveries that are heading into the utilities right now are starting to fall off a cliff.

And that's where something called uncovered demand comes into play. And if you look at the uncovered demand contracts that are required demand that is out there, that's not covered by contracts it's almost identical. And that's on chart 33, slide 33 as it was right before the last major boom.

So utilities are not covered by contracts, and if you look at slide 32 you've got a delivery waterfall into the utilities that is falling off a cliff, it dramatically declines. So now they're left to try to have to figure out where these pounds will come from, well, there's not enough, the price isn't high enough to incent new production. The price isn't high enough to get these minds who cut supply through care and maintenance going idle because prices and high enough or they can try and go out and secure it in the spot market.

Well, three years ago, if I wanted to go find 10 million pounds of uranium in the spot market, 15 million pounds of uranium in the spot market, I could do it. If I was to try and go out right now and get delivery within a few months to the converter and I wanted to find probably more than a million and a half pounds, I couldn't find it.

So it's not enough to meet the needs so contracts are expiring, the future demand is not covered by contracts and you have a very tight spot market. Sorry to be long winded on that but there's a lot of nuance in there and I just wanted to explain that what's going on in the market right now.

Erik: That's okay, I want to pick up on that though, because we've already discussed the fact that if you just look at the existing nuclear plants and the need to fuel them, there's going to be a major

shortfall. I suspect a lot of investors are probably making a mistake that I made until I talked to you guys a little bit off the air, which is I would have assumed, look, post Fukushima this can't be a growth industry, they can't be building any more nuclear power plants, because this public sentiment is so strong.

I was very mistaken to think that so, Guy, why don't we start with you on this one? Are there actually new nuclear plants being built? And if so, how many does this come anywhere close to the magnitude of the let's say the heyday of nuclear energy in the 1970s when they were building plants left and right.

Guy: Yeah, Erik. I mean we're currently in one of the biggest reactive build programs that we've had. And we've seen in decades and a lot of the market glosses over that. I mean, we always talk to the number that there's 50 odd reactors under construction and a number planned and a number proposed, but we never actually sort of pause to really scratch the surface of that detail to work out what that is, I mean, it's a number, it is what it is.

But when you actually when you look at, for example, what China is currently building at the moment, so they've got a shovel in the ground on reactor builds, so these are reactors that we should be finished and connected to the grid between now and 2025. It's over 10 to 11 million pounds of uranium per year that they're going to need to fuel those new reactors. I mean, when you consider the Husab Mine in Namibia for example, I mean as argument as to what that does each year and it's certainly not doing what it was supposed to do for the nameplate.

They need another one of those mines and more just to fuel these the reactors that they're building when you look at X China as well. I mean we see China as the big growth engine and I still believe that there's much more to come from them but X China there's a lot of reactors being built as well. And again between now and 2025 that's they were there about 18 million pounds of uranium per year, which is equivalent to another MacArthur river, one of Cameco T1 assets that needs to come into production to fulfill that.

I mean, I'm ignoring front loading of fuel for all these reactors, which when you basically start a reactor you need three times the amount of your annual requirement, I'm ignoring that in these numbers even. So when you look at the fact that there's a deficit now, with just what is currently running, there's going to be an even bigger deficit the next five years when the reactors that are being currently built, connect to the grid. And when you then look at what China's doing, I mean, China has put out a 20/60 in a carbon neutral plan, which sounds like a long way away, but that's China, they'll be starting to come out with some headlines on their 14th five year plan at the end of October.

It's my view that they're already ambitious nuclear reactor build program is going to increase because it has to, so not only are you seeing X China with a healthy build program, China's also got a great one at the moment. But if that gets even bigger than this story just continues to be fundamentally skewed in such a way that that price just has to catch up or China goes on some massive buying spree of every uranium resource in the world to fulfill their needs, which also fulfills the same goal.

Erik: Mike, is there anything you want to add on the scope of the building that's going on? And particularly, maybe you can address the timing? When do we see new plants that are being built coming online and actually starting to consume fuel rods?

Mike: Good question, Erik. So there's a steady stream coming on over the next 5-7 years, you'll see and like Guy said when a new reactor starts, the initial fuel load is up to three times the amount that is needed, because you're putting a few loads in there to fill the reactor up. And so you will see a steady stream of these coming online, and we don't in our of calculus include those that are planned and proposed because we just want to know what is what because once you've started one of these things with the exception of two in the US, they finish.

And you know the Western world builds reactors way over budget and way over time, but they've got this down to a science. The Russians and the Chinese who own the Russians own the nuclear fuel cycle to a large extent, they build them on time on budget.

Guy: Sort of the South Koreans as well, right?

Mike: South Koreans as well, you're right. They're very, very efficient at it, so you will see a steady stream of these coming online and one of the things that was not part of our thesis, we started looking at this really late 2015, early 2016. I spent a year just trying to understand because I like you, Erik, and like many people, I'm a deep value investor have been in the hedge fund business 25 years.

But my view of nuclear power was a laypersons view and I thought for sure, let me go, I see this disconnect 500 companies down the 50, a market cap of 150 billion down to under 5 billion at the time. We were mentioning offline, when I first started looking to sell side models were three years old, they were dated, anyone who is a uranium analyst was fired. And anyone who was so they gave it to a precious metals analyst to look at it and it's a wildly complicated industry and it's so opaque that it was ignored.

And so from a professional investor standpoint, it's still thought nuclear was dead but as you start looking at the demand, at the end of the day when you take into all of these closures that in the West

that will occur. In Europe there's going to be closures in the US there will be closures, you factor that into the math and net at the end of the day over the next decade, it's a 2% grower.

So it's not a fancy sexy growth business, but it's a growth business. And that's the exciting part because the narrative is so entrenched with nuclear is dying, and just a simple fourth grade math doesn't bear out those facts just based on what exists and what's in under construction right now.

Erik: I want to test out my own hypothesis on this industry with you guys and see what you think, but it goes back to something Mike said earlier in the conversation about environmentalists. I think the sea change moment for the nuclear power industry is when the environmental community which clearly has the public here, changes their tune and says, hey, it's safe nuclear power that's going to be the solution to our carbon problem. And we got to really invest in safe nuclear but frankly to save face, they can't say old Westinghouse reactors are safe, we were lying when they said they were, there's got to be something different.

Now it seems to me, I don't know, a story I heard a few years ago was that there was a change of foot where instead of building these massive nuclear power plants that are built on site in position and often have all kinds of fraud and stuff going on with the construction project. There was discussion of a new trend where a much safer generation, a new generation of nuclear reactor, which was modular and small, would be built in super high quality control level factories and then shipped to where it was going to be used.

And that might be a game changer, is that still a big trend that we care about? And would it potentially give the environmental community that I'll call it a face-saving moment to say, well, if we do it this way, then nuclear is safe? Because I think that changes the world.

Mike: Without a doubt there are these small modular reactors, which you know, are let's say 50-60 100MW reactors and some even more, the micro ones much smaller. It gives the nuclear industry the ability to mass produce, that's not how they're built out, to put it in context every reactor is 440 ish in the world right now. The fuel rods that go into those reactors, not one is interchangeable with another reactor, everyone's different.

There's a handful of builders of these reactors but there's not that consistency, now that post Fukushima there, the safety standards are incredibly safe, the numbers bear that out. But this enables you to put the smaller reactors in smaller neighborhoods, smaller cities, they're better economics for all involved, for the manufacturers and for the users. And you know, one of the things I think is all of this talk of EVs, and the green future and the green New Deal.

Well, the more wind and solar you have on the grid, you have all these EVs, when they're going to power these cars at night. Well, who what's going to power those? Coal, natural gas? The wind only blows at certain times, and the sun blows during the day and the storage, there's not enough storage, and it's too expensive.

So, nuclear power and the smaller reactors can help solve that problem and I think the safety feature of those two, the added benefits to what already is a very safe model, I think does bode well for the industry. Guy, do you have any thoughts on that?

Guy: Yeah, I mean, I think for the any sort of naysayers with respect to those technology advances just need to look at the number of countries that are investing in the innovation and technology advances for nuclear. It's not just the United States who are very vocal in the US Department of Energy, in my view are doing a good job with test labs and things like that. But you've got Canada, you've got France, you've got China, you've got Russia, you've got South Korea, you've got some other fringe countries.

All of these countries are spending a huge amount of time, money and effort to advance this reactor technology. And on top of that as well, with existing technology you've got improvements, there's moves too, for accident tolerant fuels and all sorts of things. And with when you come back to safety, you've got to remember that the nuclear fuel cycle, starting from uranium in the ground to the waste.

At the end of the cycle is the most scrutinized and the most regulated by multinational organizations, as well as country, governmental and independent organizations. It's the most scrutinized industry in the world with respect to safety and how they deal with things.

So I tend to think that the technology advances are very exciting, there's still 5 to 10 years away, but my view is where the industry is at the moment. It's in a very good space, and I wouldn't have any problems with a reactor being built in my neighborhood.

Erik: Would you guys agree that the world changes completely if the environmentalists get on board and bless nuclear? And if so, what's it going to take what would be the catalysts if it's not these modular reactors that would get them on board?

Mike: Economic reality and technological reality. And I think they're starting to see that you know, it's hand to hand combat, figuratively speaking, but it's just takes time. But you are seeing, and I just don't have in my head right now who the various names are that have done this, but you're seeing them come aboard because as we said earlier, you can't reach your climate goals without nuclear as part of the mix.

And then supporting nuclear is just the math of the safety involved, so it's just slowly seeing it, you see it even more now on the democratic platform in the US, Joe Biden's platform is supportive of nuclear power. I don't think you would have seen that out of the democrats a few years ago, so I think there's this just this realization that it needs to be there.

Erik: Let's move on to the investment opportunities in this space. If I draw an analogy to another metal that a lot of our listeners are familiar with, which is gold. Some investors because of gold's store of value characteristic, want to take physical delivery of the metal in coins, rounds and bars. I'm guessing that if you take physical delivery of uranium, you might get a visit from the department of I'm not sure which department but let's not do that.

In terms of the mining companies, the shares in the miners, if I use an analogy to gold we've got ETFs like GDX and I know in uranium you've got URNM. Which is the predominant uranium mining ETF now in the gold space, they break down the mining companies into producers that are actually operating gold mines. And then what are called Junior miners, which are the companies that are out doing exploration figuring out where the next gold mine needs to go but they're not actually operating a mine yet.

Is that how uranium works? And where are the opportunities? Is this something I got to believe it's much smaller than the gold space in terms of the number of companies? How big is it and what's the best way to invest in it?

Mike: So yes, you do have a similar setup in their uranium mining world, you have exploration companies, which are going out looking for uranium and most of those are very tiny. It's kind of like the pharmaceutical industry, how they've kind of let the biotech companies do a lot of their R&D.

It's kind of similar in in the uranium space and other mining sectors where you have the small juniors going out and exploring, and they're tiny market cap companies. And once in a while they come up with something and then you have the development stage companies.

So these Junior miners who find something moving on to the next phase where they'll do a PEA preliminary economic assessment. They'll move it to a pre fees, and then a feasibility study, all in the what they're doing is wrangling to bring this into production. And they may or may not, it may get taken out or not and then you have the producers in the world of uranium.

Here big producers in the West are few and far between that are, it's Cameco. And then you have a couple of other smaller producers that are on care maintenance right now. And then you have a lot of state-owned entities around the rest of the world, but it is a similar one.

And you just have to really be careful in the junior mining space, it's fraught with promotion, everyone has the lowest everyone's a first-tier producer. I'm still waiting to meet the second tier, the second quartile producer, so everyone's first quartile producer, they all can bring it on much sooner than one would think. So it's heavily promotional, just like all the mining industry is.

So you really have to do your due diligence in this space in the junior sector to make sure these costs are accurate to make sure the timelines are accurate. And as Guy said it was a great point he brought up earlier, there are very few people running any of these mining companies that have brought uranium mine into production. It's a lot of work, it's a lot of time and a lot of expertise but it's the structure is the same.

Erik: Let me ask Guy a related question, which is how can investors who are maybe new to this space go wrong in terms of understanding this market?

Guy: Very easily. As Mike alluded to before, there's a lot of snake oil salesmen around and you can come and start it. I mean, I think one of the things that we take into consideration very seriously is we get an understanding of what it is we want to own a certain stock for.

There's certain holdings in our portfolio that that we know in its current state form and management team will never get into production. But we're not owning it for that and we're aware of the reasons why we think it won't, and we're aware of what steps that company may need to take to do so.

So, it comes down to it is a very hot and very volatile sector. I mean, our firm performances has thankfully rebounded very aggressively since March this year, where it was looking terrible. And we were able to position ourselves where we thought it would move and we have turned that portfolio a little bit as its mature through the year here.

But I think it's very easy to come unstuck because even though it's people I think invest because it's a small industry, and price has to go up, I can buy whatever and it'll work for me. And that's true to an extent, but I think it's very easy to as I think Mike alluded to before in previous cycles, you can point to all of these fantastic appreciation in some of these uranium stocks in the previous bull cycles. But when you look at the dilution factor the risings and everything else that happened it hasn't actually been potentially as good for some.

So, where there's a handful of specialists in the sector that have put in a huge amount of time and effort over the last number of years and getting to know management teams and getting to know the resources. And I'd even argue that sometimes we come unstuck a little bit too, so it's not without it's

certainly it is buyer beware. I wouldn't be putting your, your whole retirement savings into it because it's extremely volatile.

Mike: And what you see Erik, what you tend to see is with these smaller mining companies there's not a lot of capital markets expertise. You have to be all over management, when it comes to how they're spending their capital and burning their cash. And as the market care you may want to do this, that and the other thing to bring your mind along in development stage.

But the market doesn't care right now and you don't need to do it right now. And like Guy mentioned with the dilution, a lot of these companies have diluted till kingdom come, right now he's coming in new to the space that you're dealing with your math and your valuation based on that.

But it requires a lot of, I don't say hand holding, but you got to, I'm sure Guy has to, we're pretty tough with the management teams, that we have meaningful holdings in because you have to be all over them. Because there is not that necessarily that great expertise there so it can be challenging.

Erik: Gentlemen, the most striking thing to me in this interview has been learning a little bit more about what you guys do, and specifically your relationship to the market now because I'm sure that we have a very large accredited investor audience. I'm sure many of them are going to be disappointed to learn, Mike, your Sachem Cove partners Fund, which has done very well in this space is closed to new investors. And the reason is because you've reached a size where you feel like you can't really deliver that same excellent performance because too much money, not chasing not enough opportunity.

Guy by your own description, you were running a much larger fund with much bigger AUM and as a matter of your mandate, you perfectly well could have gone into this space with that fund. But you decided instead to spin off a new fund because you needed a smaller entity in order to be effective at investing in this space. And, you know, if I hear your story, Mike, usually equity funds close to new investors when they hit 2 billion or so, you're only at 65 million, and you had to close at that level.

So on the one hand it strikes me as, oh my gosh, if that's the level you guys have to close at when this market gets hit with billions of dollars of capital, as it turns around, price is going to go through the roof. It's an incredible opportunity but wait a minute, you guys are really good at this and you're not taking any more money because there's not enough good deals to chase.

Guy: Well, hang on, I'm taking a bit more money Erik, and hopefully I get it in before I get it in before that those billions of dollars of generalist money come in.

Erik: But you did spin off a new fund, because if you had done this, in the other fund, you were managing, it would have been too big, you would have been buying too big of a piece of the company. So for we have a large institutional audience, I mean, for people who need to put significant amounts of capital to work, it sounds like you really need to be in the know, in order to find the next opportunity to put a lot of money to work efficiently.

Mike: It's a good point. And you know, we capped it because I saw the opportunities that were there and look, this market cap, the market cap of the industry. Like I said, 150 down to at the time was five, now it's bigger, I don't have it up but probably 11-12 billion.

But many of these companies as Guy alluded to earlier, not investable, but we're not looking at, again, if our work is right, and clearly we can be wrong, right, but if our work is right, we're not looking for ordinary returns. We think the asymmetry is such where the risk reward is, is an asymmetry that I've not been acquainted with before in my career.

So, again like I mentioned earlier in the last cycle, you saw stocks just return 10, 20, 30, 50, 100 times and Guy and I and a couple of the other guys who run uranium funds, we shake our head because people expect, 50 and 100 baggers. And those don't exist in our minds simply because there's been so much dilution, but there is still significant upside in many of these if the macro work is right, you pick the right stocks. So we were, rather than go just hoovering up capital, which we could have to do that, that's not fair to our LPs, so we just decided to cap it here.

Maybe in the future, if we monitor it and we can open in the future, but as of right now, we don't, we don't see the space to put it. And like I said earlier, I think I use the reference up putting a pig through a Python when capital comes back, and again, the sell side is just warming up to the sector again.

And it's using the wrong cues because it's following the move in spot price of uranium and the reason they do that is because it's the only really visible one and that's triggered off the futures price. You got to remember most of the pounds that trade every day, they might not even trade, it's just been asked, moving around, because it trades so infrequently.

So people there is more interest coming back into the sector what we would, Guy and the folks at Segra Capital and L2 the other uranium funds, what we're focusing on is what's happening in the contracting market and are we seeing acceleration there. And what's the price curve looking like there. And so because we are deep in the bowels of this sector, at some point in time, we may decide to but yeah, there's going to be a time where the sell side revisits it in mass, where capital warms up to it, and they want to and they'll start chasing it.

Erik: So for our listeners who are interested in investing in this space, Mike, your fund is presently closed to new investors, you've got the URNM ETF that's an option. Guy, your fund is still open, are you in accredited investors only? Are you everybody? tell us a little bit more about your fund?

Guy: Yeah, so we weren't we run a wholesale investment fund here at the moment, it's set up as an Aussie unit trust because the bulk of our investors are ourselves. We basically started with partner money here, some fairly bullish uranium investors who had been in who are still in our Global Natural Resources Fund and then pushed it out a little bit further to an Australian investor base.

We do have the ability to launch a parallel structure and a common US dollar vehicle but there was a cost equation with that, obviously, if the appetite is there, we'd still consider that. But as I said, we've been small, and it's been a little bit of a saving grace over the first two years of the fund because we did have a few false starts in the sector. And it allowed us to be in positions without having a massive financial hit when things weren't going right.

We also do leverage off our Global Natural Resources funds, so we've we have global relationships, because we have been in in the resources sector through North America, through Europe, through Australia and Asia for many years. So we have had the ability where we're still getting treated fairly by brokers and what have you, despite the small size of the of the nuclear fund because of the bigger relationship there.

Mike: Erik, if I could just jump in there is one other way for bigger investors to express the view and you saw it significantly in the last cycle was you can buy physical uranium, you can't have it delivered to your garage. But you can buy physical uranium by establishing an account with one of the converters who will store it so one can go out, it's cost a little bit of money to set up an account probably \$25,000, but they will store the physical uranium, it's yours, it's it has your name on it.

And it's an interesting time in the last cycle, what wound up happening is you saw when the market started to just go through the roof. What you started to see was the physical funds had started coming in and buying it the hedge fund started coming in at 2005/2006 part of 2004 started coming in buying some physical uranium.

And then when the utilities needed to start contracting, there wasn't enough production out there and so they had to go and pay up and they paid up. And you saw the hedge fund sitting on it and you saw some huge price appreciation, and that that opportunity is available today. And that's where somebody can express their view with significant amounts of capital.

Guy: You also have, Mike, the physical proxies as well.

Mike: Yeah, that's right.

Guy: It was BC in Canada and Yellowcake in London, and I mean in full disclosure, we own both of those. But they are somewhat inexplicably both trading at 20% discount to their net. So I mean, not only are you getting access to physical uranium without having to have accounts of converters, but you're picking it up at a 20% discount to the current price.

Erik: Now why would physical uranium trade at a 20% discount? Why wouldn't somebody buy all of it and liquidate it and consume it?

Guy: Well, I think probably because this is not the obvious buyer would be a utility and I just don't think that's something that they're focused on. They haven't necessarily been having a sense of urgency to be securing front data pounds at the moment. And so therefore, if they have considered it, they've sort of shrugged their shoulders and said, well, maybe that's a bit too hard.

I think as well with institutions, liquidity in some of these things makes it a little bit more difficult for them and again, they send the price go from 23 to 34 and they've done nothing. And then it's come back to \$30 here and they've said, well, we probably have another chance.

So potentially, I mean, it's our view, you'll see that discount quickly disappear when the spot price runs again. But you know, as Mike said before, the spot price running again requires more than just the sort of five or six guys. Having a T committee meeting every day as to where it should be and need some actual real buyer to come in and take that higher again.

Erik: Well, gentlemen, to wrap this up again, for our investors you do have the ETF option, the symbol is URNM for at least Mike's fund, I think the best you can do is just hope for it to reopen again. But Mike and Guy why don't you both please tell our listeners how they can find out websites or whatever more about your fund Guy. Your fund is still open so let's start with you.

Guy: Yeah, sure Erik. I mean, the easiest way is to go into our website and it's Tribeca IP for Investment Partners www.tribecaip.com. And there's links there to our global natural sources fund Global Natural Resources credit fund and also then the nuclear energy opportunities, so it's really very easy to navigate.

Erik: And Mike Sachem Cove partners.

Mike: www.sachemcovepartners.com and there's a contact button on there that people can inquire in there.

Erik

Okay, and again, for now your fund is closed, so the only reason to contact you there would be if they wanted to find out if it reopens. Gentlemen, I can't thank you enough for a terrific interview, Kevin Muir and I will be back as Macro Voices continues right after this message from our sponsor.