



Newsletter

SMEAD INTERNATIONAL VALUE — 1ST QUARTER 2025 (3/31/2025)

Fur Coats in July

The desert is very hot during the months of July, August and September. Many Phoenicians (people from Phoenix) disappear to cool off in the mountains of the West Coast. A couple of summers ago, I took my wife and four kids to Park City for the 4th of July. One afternoon, my wife and I walked around to check out the stores and walked into a shop that sold high-end winter coats and furs. It was 85 degrees that day, so the coat store had much of their merchandise 30% to 50% off. I turned to my wife and told her that she should get a coat as the prices were something that she'd normally never see. For our family, we know that we will end up somewhere cold in winter. Since I'm not a good enough salesperson she did not take advantage of the sale, but I did. I enjoyed my nice coat that I bought that July in Chicago this last week while snow flurries came to the ground.

We've had to watch the strategy go through an elongated period (mid-2023 to March 2025) of broad price decline in energy, one of our largest sector holdings in the portfolio. Much of our energy holdings are Canadian oil and gas producers in the tar sands of Canada. In Canada, the oil price they sell at is referred to as Western Canada Select (WCS) and it historically trades at a discount to West Texas Intermediate (WTI) crude. Historically, WCS has traded at roughly a \$15 discount to WTI. While this spread has dropped to less than \$10, the price started 2025 at \$71 and ended the quarter at the same level, with price movements that were up and down during that time. Oil is down from the heights of 2022 and that weighs heavily on the short-term investors and traders.

We are attracted to these businesses because we believe the capital structures carry much less risk than meets the eye. We look at net debt to cash flow measures. Meg Energy (MEG CT), for example, has less than 50% of its cash flow in net debt. Their debt is roughly \$600 million, due in 2029. Back in 2017, during the "drill baby, drill" era, MEG had \$3.4 billion in net debt, and that was roughly 7x their cash flow. Investors are having trouble with these businesses because of concerns related to the cash flow in the near term. We are dialed in on what they could produce in free cash flow over the next five years. What's interesting to us is that in a cyclical business, you will have periods that aren't so great. Those problems become far worse in levered, cyclical businesses. Luckily, that's not the strategy's risk in these Canadian oil and gas businesses.

One of the fur coats worn by international equity investors over the last 15 years has been Glencore (GLEN LN). It went public in 2011 at the height of the commodity cycle at that time. It went public at £5.30 then. Fast forward to the commodity environment we are in today. As oil has done, the broad basket of commodities like coal and copper is down also. The primary worry, in our eyes, is two-fold. First, investors continue to be fearful of China's recovery from the tepid growth of the last three years. It's incredible that they were so confident in China's economy when Glencore went public. Second, the current tariff tumult from the Trump administration is flashing recession in their minds.

We believe investors have been quick to adjust to a coming recession. Many investors made this case in 2022 as energy prices jumped and the US Federal Reserve raised 500 basis points in short-term Treasury markets to quell inflation. The US didn't have the recession as expected, and the rest of the world came out on the other side as well.

Warren Buffett once said that the stock market was formed to move money from those who are impatient to those who are patient. We look ahead in these businesses because the capital structures are not in a near-term crisis. We believe they are ready to weather this. However, we think the scarcity of capital willing to invest in places like oil and gas and other commodity interests will benefit the forward returns of these companies and, thus, us as shareholders. Think of it like you are us living in the desert. You go to the mountains in July and buy your fur coat at a big discount. You full well know that you will not be using it for months. When winter hits, you pull it out, and you are excited for cold temperatures and possibly snow – you prepared for this moment. We believe the same thing could be true for our international common stock portfolio.

Play the Long Game,

Cole Smead, CFA
Lead Portfolio Manager

Bill Smead
Co-Portfolio Manager



Invest With Us Today!

Sales Desk 877.701.2883 | info@smeadcap.com

The recent growth in the stock market has helped to produce short-term returns for some asset classes that are not typical and may not continue in the future. Margin of safety is the difference between the intrinsic value of a stock and its market price. The price-earnings ratio (P/E Ratio or P/E Multiple) measures a company's current share price relative to its per-share earnings. Alpha is a measure of performance on a risk-adjusted basis. Beta is a measure of the volatility of a security or a portfolio in comparison to the market. Growth investing is focused on the growth of an investor's capital. Leverage is using borrowed money to increase the potential return of an investment. Momentum is the rate of acceleration of a security's price or volume. The earnings yield refers to the earnings per share for the most recent 12-month period divided by the current market price per share. Profit margin is calculated by dividing net profits by net sales. Quality is assessed based on soft (e.g. management credibility) and hard criteria (e.g. balance sheet stability). Value is an investment tactic where stocks are selected which appear to trade for less than their intrinsic values. The dividend yield is the ratio of a company's annual dividend compared to its share price.

The information contained herein represents the opinion of Smead Capital Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

Smead Capital Management, Inc. ("SCM") is an SEC registered investment adviser with its principal place of business in the State of Arizona. SCM and its representatives are in compliance with the current registration and notice filing requirements imposed upon registered investment advisers by those states in which SCM maintains clients. SCM may only transact business in those states in which it is notice filed or qualifies for an exemption or exclusion from notice filing requirements. Registered investment adviser does not imply a certain level of skill or training.

This newsletter contains general information that is not suitable for everyone. Any information contained in this newsletter represents SCM's opinions, and should not be construed as personalized or individualized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. SCM cannot assess, verify or guarantee the suitability of any particular investment to any particular situation and the reader of this newsletter bears complete responsibility for its own investment research and should seek the advice of a qualified investment professional that provides individualized advice prior to making any investment decisions. All opinions expressed and information and data provided therein are subject to change without notice. SCM, its officers, directors, employees and/or affiliates, may have positions in, and may, from time-to-time make purchases or sales of the securities discussed or mentioned in the publications.

For additional information about SCM, including fees and services, send for our disclosure statement as set forth on Form ADV from SCM using the contact information herein. Please read the disclosure statement carefully before you invest or send money.



smeadcap.com

2502 East Camelback Road
Suite 210
Phoenix, AZ 85016

Sales Desk - 877.701.2883
info@smeadcap.com