



Newsletter

SMEAD INTERNATIONAL VALUE — 1ST QUARTER 2026 (3/31/2026)

Succeeding Unconventionally

John Maynard Keynes published his famous title *The General Theory of Employment, Interest, and Money* in 1935. Keynes is famous mainly as an economist. To a cult of investors like ourselves, he is more famous for his concentrated stock picking prowess while he ran the Chest Fund at King's College. Keynes believed in the American future and was taking more risk making that bet. He underperformed in 1929-1931, before putting out an outstanding run from that point to 1946, when he died. By 1935 when the book was published, he was well into his run as a good stock picker and had become known as a successful money manager. From the book, we get his most famous contrarian investing line, "Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally."

Keynes wrote that in 1935. Now, 91 years later, it is as true as the day it was written. For individuals, succeeding conventionally would be to invest in the passive S&P 500 Index because it is conventional and stocks only go up and to the right. For the institutional investors, being passive expects that others won't do well in stock picking. Passive investing keeps your fees low and, all else equal, is the way to add value. These facts are all conventional. The inherent risk is that the passive S&P 500 Index causes most investors to fail together. Watching the conventional crowd believe that the market can't ever go down longer-term because of factors like 401k flows, loss of active decisions, etc., is just as adorable as believing in 2005-2007 that house prices could never go down.

We won't spend the entire letter criticizing the conventional crowd. We want to spend the rest of this letter with shareholders discussing what is unconventional about what we are doing. First, we picked through the dead bodies of the last capex mania, long after it peaked. Energy and the drill baby drill era of the 2010s were a capex mania that transformed global supply, leaving America as the largest swing producer. In the 2010s, companies told you about a bright future, the amount of capex they would spend and how much capital they needed in debt and equity to extract black gold. The futures curve also showed contango, which meant new supply had the ability to hedge some future production at higher prices than the spot price to grow new production. The S&P 500 Index had roughly a 10% position in the energy sector at that time.

At the end of March 2026, the S&P 500 and MSCI World Index had 4.01% and 4.70%, respectively. The futures curve is historically backwardated with dated Brent deliveries, which are the soonest oil to be delivered, showing physical market tightness never seen before. Despite high spot prices, oil companies are unwilling to add rigs and capex to this environment. It's an unconventional set up in the industry and we have 38% of our fund in oil stocks that include Cenovus Energy (CVE CN), Strathcona Resources (SCR CT), Tamarack Valley Energy (TVE CN), Imperial Oil (IMO CN), International Petroleum (IPCO CN), and Occidental Petroleum Equity (OXY US) and Warrants (OXY/WS US). The fund's shareholders are unconventional in energy holdings compared to other investors.

European Banks were conventionally believed to be low-return businesses. Further, the weakness in the banking sector was assumed to be yet another retardant on economic growth in Europe. Unconventional investors like us took a different stance. We saw a focus on cost and capital returns that included buybacks for the first time ever among these banks. If these manifest, there could be a two-prong increase if return-on-equity from higher profits and less capital needed to run their banking franchises occur. If you could add good mergers and acquisitions to this, you could further strip out other operating expenses in the technology spend, marketing and real estate leases to enhance the profits without much imagination.

Conventional investors saw potential headwinds on the horizon for these banks. Unconventional investors saw the potential headwinds and chose to focus on the enhanced returns on capital. Lastly, unconventional investors are taking advantage of this opportunity in banking to capture an attractive risk-reward opportunity. These same unconventional investors would know that the returns on capital sustained at higher levels would be the dominant driver of the value of the business and the multiples they are willing to pay. There has been a 20-25% decline in stock prices of these banking businesses in the first quarter of 2026 across Bawag (BG AV), Unicredit (UCG IM), Bankinter (BKT SM), Barclays (BARC LN) and Natwest Group (NWG LN). After going up a lot over the prior year, the return on equity is continuing to stay strong, unlike what conventional investors thought.


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Conventional investors believe they can't have skill in the stock market, let alone multiples sectors or differing of industries in the stock market. The returns on capital of a business matter. History can teach you a lot about a business, but not the future. We are witnessing a return to a high level of returns on capital that we haven't seen for years in Burberry (BRBY LN) in luxury, Glencore (GLEN LN) in commodities and Frontline (FRO NO) in the oil tanker business, and Next (NXT LN).

As unconventional investors, we continue to use our discipline to find new names to see if their returns on capital can be sustained despite the perception of the recent stock price declines with names like Autotrader Group (AUTO LN) in car advertising, Subaru (7270 JP) in car manufacturing, Pandora (PNDORA DC) in jewelry and Spin Master (TOY CN) in the children's toy and media business.

These differentiated risks over time are what this fund is intended for through our eight criteria. The goal of taking these risks is to reach outcomes that provide a proper reward. Conventional investors don't believe that you can make 10% annual returns outside the US, but the unconventional investors of the fund know that this is not true because they have witnessed evidence to the contrary. We applaud the fund's shareholders for the success they have produced in their accounts and are very thankful to be the guide in this venture together. You all have proven to the world that you are not conventional and don't care about your "reputation." You care about outcomes as you'd rather succeed unconventionally.

Play The Long Game,



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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.

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