



Newsletter

SMEAD INTERNATIONAL VALUE — 3RD QUARTER 2026 (9/30/2026)

Being Greedy When Mr. Market Doesn't Understand

The year 2026 has shown that deeply out of consensus investments in the portfolio have continued to reward investors. Our banks and energy companies continue to lead investment performance as they have over the last three years. While shareholders should enjoy this, we also want to talk about how these companies look versus where we started out with them.

In December of 2020, the portfolio purchased shares in Husky Energy, which had announced a merger with Cenovus (CVE). At that time, the combined company was trading for 40% of the invested capital of the business, a steep discount to replacement. Investors had to be optimistic about where the returns on capital would go, as we were still normalizing from negative oil prices in the spring of that year. You had to hope the business could get to 10% returns on its capital base. If they did, you could hope to expect they would trade at one times capital.

At the end of the third quarter of 2026, Cenovus trades for two times its invested capital. This is a much higher multiple than 2020, but it produces far higher returns on capital now, as well. The analysts who cover the stock think it's going to provide 25% returns on invested capital (ROIC). At current spot prices of \$90 WTI, Cenovus is producing closer to 30% returns. Returns could go down 40% from current levels on lower oil prices and still justify the current two times capital multiple. The shareholder buybacks reinforce that this business deserves to get a premium as they are efficiently allocating capital for shareholders.

We've gone from wondering whether the returns on capital would be adequate in the future to attempting to figure out what the right multiple is for those high returns. What a great problem to have! As the business compounds cash and returns it to us, time is on our side. We don't think the opportunity will be gone until the oil futures curve is in contango and passive owns a double-digit percent in the space. Seems years away to us.

The European banks have followed a similar story. Unicredit (UCG) was looking like a high single-digit return on equity (ROE) company back in the summer of 2022. Their outspoken CEO, Andrea Orcel, was telling investors the stock was cheap and he was going to return capital via buybacks while the stock was less than half of the book value. Rates went higher and stayed. The business became a mid-teens ROE story four years later and has been the stalking horse on other banks over the last two years as they get a nice premium on book value today.

We expect them to close on their purchase of Commerzbank (CBK) in due time and consolidate that unit with their German operations. We then expect them to repeat the process on Alpha Bank (ALPHA) in Greece and/or consolidate more in Italy. Scale is a driver of returns in capital-intensive businesses like banking and energy. Cenovus continues to acquire companies, including the recent acquisition announcement by them of Athabasca.

No one has been dreaming about how bright their future is for these companies. This compares to many of the things that Mr. Market didn't understand. He didn't understand that the ECB wants bank consolidation, and there are rewards in liquidity of public indices and the cost of capital for banks that shape that path. Mr. Market also didn't understand that once the oil sands' assets began consolidating, it would all go quickly. There are only three oil sands businesses left with scale. We own two of them, Strathcona (SCR) and International Petroleum (IPCO).

We will continue to ask what it is that Mr. Market does not understand in new investments. Autotrader (AUTO), Burberry (BRBY) and West Fraser Timber (WFG) seem to show signs of this. We will be patient as we await Mr. Market to recognize all that the investors of the strategy have figured out already.

Here's to playing the long game,

Cole Smead, CFA
Lead Portfolio Manager

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