

John Huber, Managing Partner

www.sabercapitalmgt.com

April 10th, 2025

Saber 2024 Year Review and Spring Update

Dear Investment Partner,

This letter is the brunch equivalent of a yearend update, roughly halfway between yearend and mid-year. Our annual meeting in February served as a review of our main investments and the drivers of our results ([review here](#)). I also have commented on our investments in numerous blog posts, which Saber clients can always access [anytime here](#). We also had some requests for various other portfolio metrics, which I discuss below and will be providing on an ongoing basis each year.

Regarding tariffs and market volatility: we had some excess cash from the sale of a couple special situations, and we used some of it to buy shares of existing investments last week as prices declined.

I've talked to several of our companies regarding the potential impact. Nearly all companies (including ours) are likely to be impacted indirectly in some way, but I feel good about our long-term earnings prospects for our holdings and their durability in tough times.

In fact, some may even do quite well. I expect the box office (and Cinemark's earnings) to grow this year and next even if the economy enters a recession. Movie-going is quite resilient as it's a cheap form of entertainment (the box office grew 10% during the 2008-09 financial crisis and recession).

Cinemark is rare in that regard, and many of our holdings will see lower earnings, but in my view, the quality of a company doesn't come from how correlated their revenues are to the overall economy. Quality comes from returns on capital, an ability to generate free cash flow and the prospects for growth. **In business, quality is simple: how much cash can you pull from a business over time and how much do you need to put in to get that cash?** This is ROIC, and as Buffett says, I'll take a lumpy 15% over a smooth 10%.

First Citizens is at the opposite end of the spectrum to Cinemark: a company that is cyclical and will have earnings that rise in good economies and fall in recessions, but that doesn't diminish the quality of the asset. And FCNCA is very high quality — one that has compounded at 15% annually for over 3 decades (and in fact has maintained healthy profits through each of the last three recessions — the stock was actually up in 2008, a feat many bank stocks cannot lay claim to). FCNCA is a cyclical business (a lumpy 15%), but very high quality.

To paraphrase Charlie Munger, we can't forget what it is we're trying to do. Our goal is not to avoid companies that might see temporary earnings declines. It's to invest in stocks that will create the most value in the long run.

Performance

In the first quarter of 2025, SCP was down -5.64%. SCP II was down -3.63%.

In 2024, SCP was up 40.92% (gross and net). SCP II was up 38.53% gross and 36.92% net.

As a reminder, the funds have a 6% compounding hurdle which means your capital account has to compound at 6% per year from its last high water mark before any new fees accrue.

Both funds hovered around this high water mark + 6% compounded, with SCP ending just below this mark (thus no fee was earned) and SCP II ending just above it. The funds will have very similar results over time, but they can vary slightly due to the timing of new inflows and withdrawals.

Results

I am pleased with recent results and the current portfolio prospects. I am finding value in smaller stocks and special situations.

Last year, **76% of the fund's profits came from stocks that were outside the S&P 500**. Below is a list of our top 5 contributors:

(For simplicity, dollar amounts in tables throughout this letter are taken from SCP, but SCP II and the SMA's will be similar).

Top Contributors	% of SCP Profits	2024 Return	
CNK	18.4%	120%	
NRP	15.2%	27%	
MCS	12.5%	96%	
FCNCA	10.4%	50%	
DR	10.7%	74%	
Top 5	67.2%		
Rest of Portfolio	32.8%		
Total	100.0%		
Notes:			
% of Profits: unrealized + realized gains + dividends as % of total fund profits in dollars			
2024 Return: yearly return in the stock including dividends			
For stocks purchased during the year, 2024 return is return from our avg cost basis			

The top 5 hitters accounted for 2/3 of the run production, but the rest of the lineup was still very important.

We had negligible losers in 2024, which is very rare. The worst three stocks had losses accounting for less than 1% of our net profits (compared to our 5 contributors which earned 67% of our profits). We are building positions here and so I refrain from naming them yet, but in future letters, I'll report our top 5 laggards (or any meaningful ones) in this section as well.

Closed Investments

Since our annual meeting portfolio update, we closed two core investments, both special situations. We sold Medical Facilities in March. They sold their Black Hills facility and used the proceeds to buy out shareholders at \$18. I think this was a smart use of cash, and the remaining three hospitals still appear undervalued, but the gap between price and fair value has narrowed and I felt there were better opportunities elsewhere.

Here is a summary of the investment (Dollar amounts from SCP; SCP II and SMA's had similar percentage returns):

DR Medical Facilities Final Summary		
	\$ USD	
Total Investment	\$1,673,086	July 2023
Total Proceeds	\$3,098,325	March 2025
Dividends	\$80,328	
Total Profit	\$1,500,347	
Cost/Share	\$8.64	
Proceeds/Share	\$17.29	
Total Return	89.7%	
Annualized IRR	59.0%	
Notes:		
Dollar amounts from SCP; will vary between other accounts		
July 2023 was our initial investment, where most of our capital was invested		
We added to our investment at times in 2024, and began trimming late in 2024/early 2025		
March 2025 was our final sale, where all of the position was sold.		
Total ROIC is the total profit including dividends divided by our total investment		
IRR is the annualized return of the investment, factoring in all buys and sales		

Our investment in the Fairfax Preferred shares also came to a successful close. See past letters for our investment thesis here. We also posted a blog about the opportunity in December.

These stocks yielded 11% when we invested, a significant discount to other FFH preferred stocks that yielded 6%. In other words, apples to apples, our preferreds were discounted relative to other preferreds in the same capital structure. It looked like a clearly mispriced stock, and if the company decided to redeem these stocks at par, the upside was over 40%.

My thesis was that the company would ultimately redeem these stocks and refinance to a lower cost of capital, but in the meantime, we'd earn a double digit yield.

Fairfax did end up redeeming our preferreds, bringing the investment to a close:

FFH Preferred Stock Final Summary		
	\$USD	
Investment		
	\$1,033,567	August 2023
	\$421,403	Dec 2024
	\$286,644	Feb 2025
Total Invested	\$1,741,614	
Total Proceeds	\$2,274,178	March 2025
Dividends	\$141,538	
Total Profit	\$674,102	
Total ROIC	38.7%	
Annualized IRR	38.9%	
Notes:		
Dollar amounts from SCP; will vary between other accounts		
Cost/share not listed as it varied between 4 different preferreds and different dates		
Total ROIC is the total profit including dividends divided by our total investment		
IRR is the annualized return of the investment, factoring in all buys and sales		

These two investments highlight some of the opportunities we’ve taken advantage of. I think both were very high quality, low risk investments and while the outcomes won’t be this good on average, these are the types of investments we’re looking for in this category.

I also won’t cherry pick the good ones, and you can be sure to find results of some duds in this section of future letters.

Categories

In our last letter, I discussed how I think about the portfolio in three broad categories. There is nothing too significant about these categories, and I don’t seek out investments for one category or another, but I do find it helpful to evaluate the different types of investments. I also define these terms (compounders, special situations) differently than you might find from other investors ([see this letter for a description](#)).

Here are the returns generated from each category in 2024, along with the average weighting:

Investment Category	2024 Return	Avg % of Portfolio
Compounders	24.7%	69%
Special Situations	73.5%	22%
Graham Basket	23.7%	9%
Overall Fund	40.9%	
Notes:		
2024 Return: total category profits divided by average invested capital in the category		
% of Portfolio: Avg invested capital of the category divided by total avg fund invested capital		
Returns are before GP allocation for comparison purposes; SCP net return also 40.9% in 2024		

Special situations had a great year, and this continues to be a category where I'm finding opportunities. I highlight two investments in this category that recently closed.

I will be reporting the performance of each of these categories on an annual basis going forward.

Here is a list of SCP's current holdings:

Saber Capital Partners Portfolio Summary: 3/31/25				
	% Weight	Category	Stock Price	Comments
NRP	21.9%	Compounder	98	Earned \$44 last 2 yrs, dividends coming
Graham Basket	11.5%	BGB		
FCNCA	9.5%	Compounder	1,675	8 P/E; quality growth, buyback
CNK	7.9%	Compounder	27	10 P/E with growth from box office improving
CPRT	7.2%	Compounder	59	
MCS	5.9%	SS	15	
NVR/PHM	5.2%	Compounder	7100 / 92	Capital light, buying back shares, housing shortage is tailwind
SRBK	4.8%	SS	12	60% of book value; 10% buyback; insider buying
V	4.7%	Compounder	330	
GFR/SCR	3.6%	SS	5 / 24	Canadian oil at half of reserve value
GOOGL	3.5%	Compounder	153	
MSVB	3.1%	SS	15	Liquidating: \$16-17 per share estimated proceeds; 20%+ IRR
PBI	3.1%	SS	8	20% FCF yield; sold poor business; good business should shine
BSM	2.2%	Compounder	14	Oil mineral rights; 10% dividend + call option on future growth
Other Comp	9.0%	Compounder		Starter positions; not yet named; details to come
Other SS	6.4%	SS		Starter positions; not yet named; details to come
Compounders	71.7%			
Special Situations	26.8%			
Ben Graham Basket	11.4%			

<i>Notes:</i>
<i>Occasionally excluded from this table are small, miscellaneous investments outside of these core categories</i>
<i>Table shows SCP portfolio; SCP II and SMA's are similar and are designed to be the same, but vary at times due to new deposits/withdrawals</i>
<i>P/E could also mean P/FCF; based on my estimate of their current earnings</i>
<i>Past performance does not indicate future results; my comments reflect my opinions but aren't guaranteed</i>

I will be writing about some of our new investments in upcoming blog posts as well as discussing them in our next Saber Client Zoom call after Q2 (July). Lots more commentary on our investments can be found in [previous letters](#) and the [blog](#).

Trade and the Economy

*"We have been trying for many years to engage in reciprocal tariff reductions... on the whole, it has been a very unsuccessful policy." – **Milton Friedman, 1978***

Milton Friedman was a full-throated advocate of free trade (and was no fan of tariffs). He felt free trade is the best way to not just give consumers the lowest prices but also give producers (as a

whole) the most jobs and the highest aggregate income. He viewed trade as just one side of the coin. The other side was the capital account surplus – foreign owned US dollars coming back home to be invested in the US. Limiting trade meant not only higher prices for consumers but perhaps fewer jobs since the foreigners wouldn't have the funds to invest here.

I tend to agree with Friedman's view on free trade, but it's possible that this is an *ideal* viewpoint. As Yogi Berra said, "in theory, there is no difference between practice and theory; in practice, there is".

For those of us who need an economics refresher, a trade deficit simply means we consume more than we produce. It's not all bad, but it does effectively mean we need to borrow from our trading partners to fund this overconsumption. It's possible that too much debt owed to our trading partners could lead to inflation.

Buffett (who is a man in the arena) [talks about America](#) as a massively wealthy family that owns a farm that is so vast that the edges of it can't even be seen. Each year, the harvest shows up at the family's doorstep. The family consumes 100% of what its farm produces, but wants even more, so it imports food from a neighboring land, paying for this additional consumption by selling off a piece of its farm. Since the farm is so vast, no family member notices that it has a little bit less than it did the year before. After all, they're eating as much as they want without seeing any near-term consequences. This can go on for years, even decades, but eventually, the rich family might begin to notice that their farm is much smaller than it once was, and the neighboring land owns an uncomfortably large portion of what used to belong to the family.

This is the trade deficit. Instead of selling off a piece of our land, though, we're mortgaging it. We give the neighboring lands an IOU (Treasury bonds) which are claims on our nation's future earnings. We're trading future earnings so we can consume more today.

Thankfully, as the world's reserve currency, we have a never-ending lineup of lenders. As such, it's highly unlikely that we'll ever see any sort of dramatic debt default that worried commentators often suggest. We have the safest house in the neighborhood and as long as that remains true, the neighbors will always seek shelter here whenever there is trouble in the streets.

But I do wonder what happens if foreign trading partners become adversaries? What level of foreign ownership of US assets would be concerning, or even unstable? **Foreign ownership of publicly traded American corporations has grown from 9% to 18% in just the last decade.** At this same rate of acceleration, foreigners would own more than a third of America's publicly traded equity a decade from now. Will the next generation be comfortable sending 1/3 of their earnings overseas?

Milton Friedman said that this trade deficit isn't a problem (he looked at the capital account surplus – the other side of the trade deficit coin – as a glass half full, not half empty). And I think he's right that if we all get along, it wouldn't be a problem. But alas, human beings are involved, and life gets messy. What happens if we don't get along? What if foreigners ultimately want to be repaid?

These are questions I don't know the answers to. Deficits (both budget and trade) are currently very high. As a risk manager, I think inflation is a possible outcome that we need to be prepared for. This is not a prediction, but simply a risk to be mindful of. **To defend against this risk, we want to own companies with an ability to increase returns on capital.**

For those interested in hearing two different views from two very smart economists (one of which is the world's greatest investor), I'd recommend this [Friedman talk](#) on trade and this [Buffett article from 2003](#) where he outlines his concerns about trade deficits and inflation, and recommends a surprising solution – essentially tariffs! (with a free market twist). Buffett also gives a [nice 2 minute summary here](#).

Short-termism & Opportunities for the Patient

One thing I can say with certainty is that the last few weeks have displayed how little appetite we have for pain in this country. It took just 3 down days in the stock market and the 10-year Treasury yield to spike to 4.5% (the horror!) for people to panic. This is an indication to me that the expedient and easier route is almost always likely to be taken over the difficult and responsible one. It's harder to cut spending, easier to run budget deficits. It's harder to raise interest rates; easier to provide stimulus, etc...

The good news is the short-termism creates all kinds of opportunities for long-term investors like us. American corporations were valued at \$6 trillion less on April 8th than they were on April 2nd. On April 9th, they were offered at \$4 trillion more at 3pm than they were at lunch time. Perhaps either price didn't reflect the right value, but I'm positive that the present value of all future cash flows coming from American business didn't change by 10% in mere hours.

This huge volatility obviously provides opportunity. Being able to look past this noise is a major edge for long-term investors, and the longer we look, the more pronounced the opportunities. JP Morgan is the world's largest and most well-followed bank, and the stock is worth over 100% more than it was 3 years ago. This doesn't happen because analysts misjudge the quality of the business or its long-term earning potential. It happens because investors fear what might happen to earnings next year. They are often directionally correct, but the pessimism pendulum often swings too far. This provides a steady stream of opportunities for patient investors and since human nature doesn't change, I expect these opportunities to persist indefinitely.

If you have questions about any of this above (trade deficits, inflation and/or its potential impact on our investments), please email them over and I may compile them for a short video update.

We'll have our next zoom call sometime in July, where I'll be reviewing our investments and answering questions on some of our new investments.

Thank you for your partnership. Managing our fund is both challenging and fun, but the privilege of being your partner is honestly what makes the work fulfilling. I am truly excited about our fund's prospects over the coming years.

Best regards,

John Huber