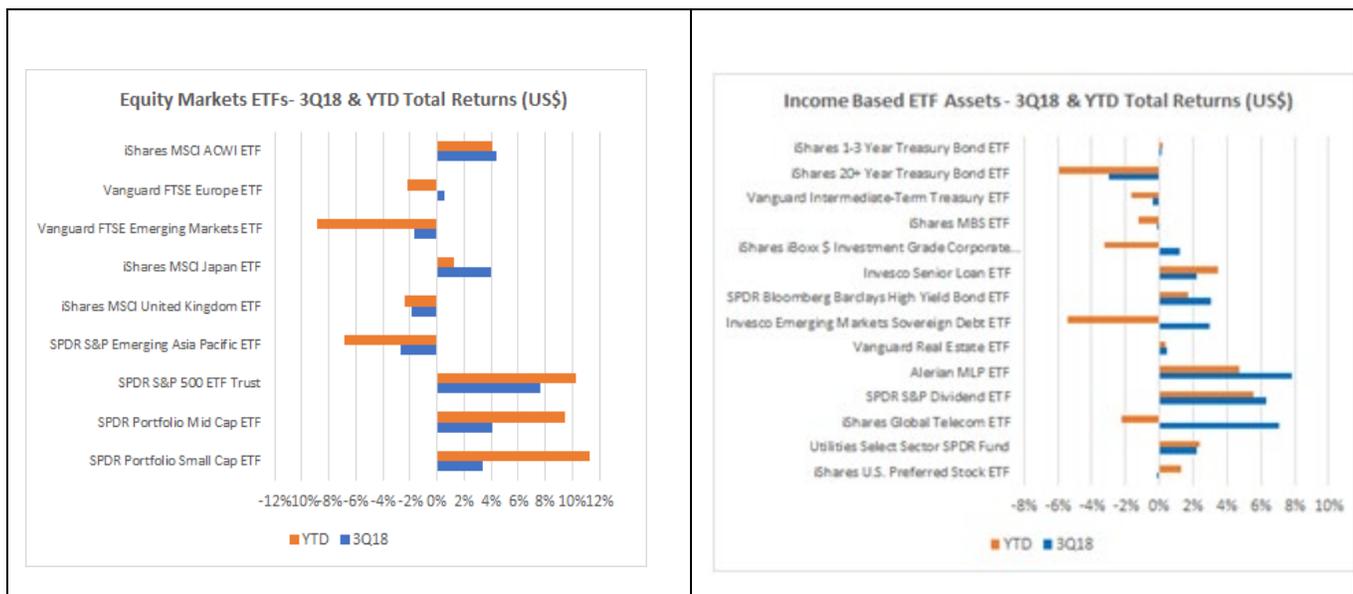


SeaBridge Cautious Core Strategy
Third Quarter 2018

Market Results

U.S. markets were up strongly in the quarter, generating the best quarterly returns since 2013, while international indices were mixed. Europe eked out a very small gain for the quarter while emerging markets declined. Escalating trade tensions and the strong dollar hurt the emerging markets.

Income-based assets, such as dividend-paying equities, MLPs, REITs, Telecoms, and Utilities continued to rebound after a terrible first quarter. Most fixed income assets are still posting small negative returns YTD, reflecting the impact from rising interest rates. Bank loans with their shorter duration, floating rate nature, and higher correlation to economic growth have registered small gains YTD.



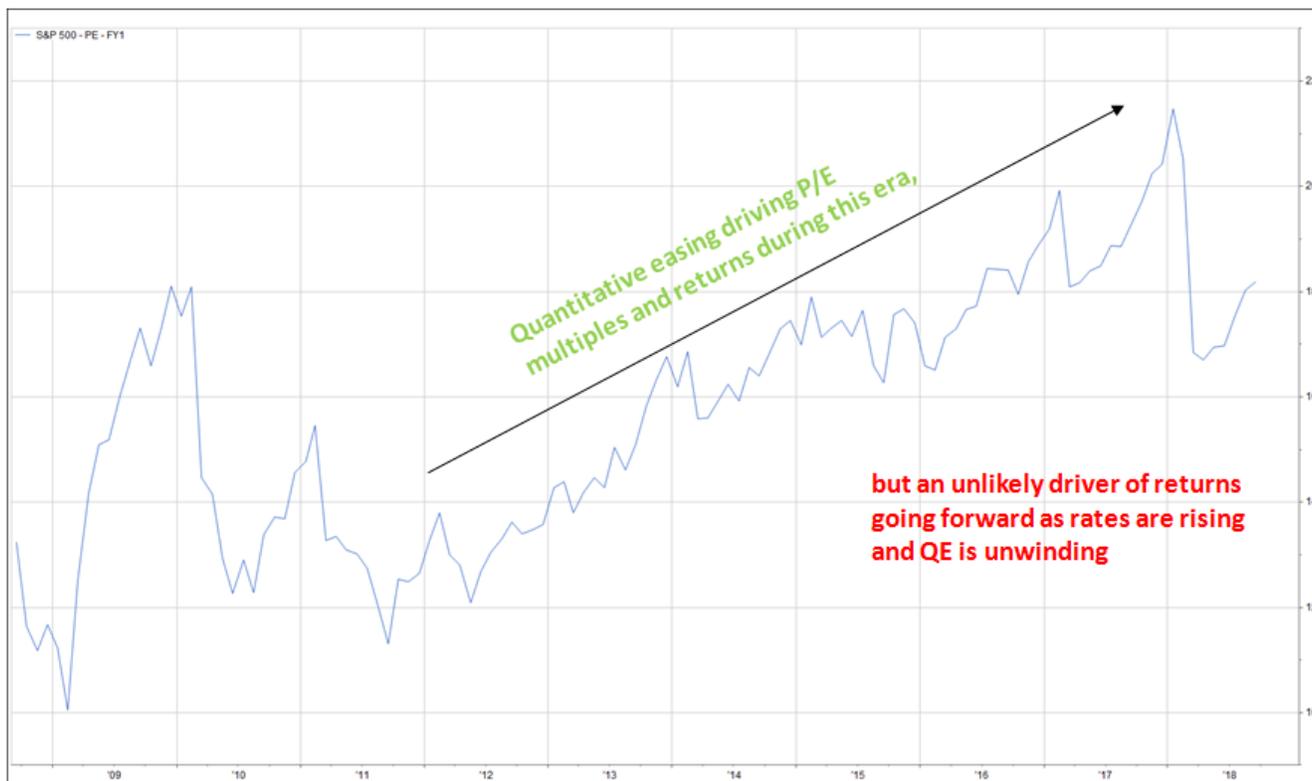
Source: Factset

Economic Environment

U.S. economic data is showing considerable strength and resilience though concerns about trade, global growth, and politics have tempered positive sentiment. Relatively low interest rates, solid earnings growth, and moderate inflation continue to serve as the basis for equities to trend higher. Credit (i.e. businesses' ability to service debt) has not shown any signs of deterioration that usually occurs during the late economic cycle. Meanwhile, trade tensions between the United States and China continue to escalate and any meaningful dialogue between the two countries is not likely to occur until after the midterm election.

Volatility in the markets took center stage earlier in the year, but it has faded recently. Volatility is always unnerving, but we think our disciplined approach that relies on fundamentals will continue to benefit our clients. Although S&P 500 earnings are forecasted to grow 10% next year, global market conditions look to become more challenging, characterized by fading fiscal stimulus, stretched valuation across all asset classes, a

shift toward less global central bank support, higher interest rates, and a potential rise in inflationary pressures. Comparable to this year, we suspect market returns in 2019 should once again come below earnings growth as rising rates and less accommodative monetary policy are likely to pressure P/E multiples. Our goal is to remain defensive and opportunistic to investing as we navigate a more difficult macro environment.



Source: FactSet

Portfolio Activity

We trimmed **Microsoft (MSFT)** after the company delivered another stellar earnings report in the third quarter. Despite the reduction, MSFT is still one of our top 10 holdings, reflecting our view of MSFT's sticky customer base, annuity-like revenues, and the enormous cloud-based growth opportunities in Azure and Office365. As of June 2018, Microsoft had \$134 billion in cash and short-term investments (15.5% of its current market cap) on the balance sheet at its disposal while generating \$32 billion in free cash per year and forecasted FCF growth of low double digits. This is the type of high quality durable cash generative company that we look to have in the Cautious Core portfolio.

We eliminated **Aberdeen Asia-Pacific Income Fund, (FAX)** and the **PIMCO Low Duration Bond Fund (PTLAX)**. We think there are better yielding and less costly income alternatives in the market.

Positioning

We use diversification and income dampening assets (i.e. fixed income, closed-end funds, master limited partnerships, and other bond-like surrogates) to try to achieve lower volatility (historically, an annualized volatility of 6.2%) and higher income in the Cautious Core Strategy. The current yield for the Cautious Core composite portfolio is about 3.2% versus the S&P 500 yield of 1.74% and an investment grade bond index (LQD

ETF) yield of 3.89%. We look to increase the yield of the portfolio as interest rates are expected to rise in the coming year.

In Cautious Core portfolios, we generally allocate 20-30% to cash and cash alternatives, 25-40% to fixed income and bond-like equities, and the rest to high-quality equities.

Our income-based assets in **bond-Like equities** --U.S. REITs (tower stocks and commercial and residential mortgages), Business Development Companies, and international commercial real estate-- and **MLPs** (Master Limited Partnerships) should offer not only a solid income stream but also some growth to offset the impact of rising interest rates. MLPs are one of the few asset classes offering attractive yields.

Fixed income is approximately 49% of the portfolios, with 90% of that in short duration fixed or floating rate instruments. In the pursuit of protecting capital, our short duration fixed income holdings may provide a cushion during periods of market dislocation. Including cash, these income-based assets (**Bond-Like equities, MLPs, and Fixed Income**) make up 66% of the Cautious Core composite.

Equities make up about 34% of the portfolio. For our equity positions, we look to hold large cap, high-quality dividend growing companies with a management team that is focused on maximizing value thorough prudent capital allocation. The characteristics of large cap U.S., quality, and income should also serve as a buffer in a stressed market environment. We use equities primarily to help grow the principal of the portfolio and provide inflation protection. We prefer dividend growers (for example companies with only 2%-3% dividend yield, but growing cash flow at 8-10%) versus high yield equities (for example 5%-6% dividend yield, but very little cash flow growth) in a rising rate environment.

The recent earnings season for our holdings was one of the strongest we have seen in years with many of our holdings reporting better than expected results on strong organic growth.

Thank you for your continued confidence in SeaBridge.

Howard Chin

10/4/18

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There are differences among portfolios managed by SeaBridge in each strategy based on client-specific factors. Not all portfolios hold the same securities. Not all stocks held in the portfolio perform similarly. Some client accounts may not have as much cash reserved as other accounts managed in the strategy due to client withdrawals or other issues. SeaBridge manages portfolios in several styles.