SEABRIDGE
INVESTMENT ADVISORS, LLC
Garnett Keith, John Conti, David Descalzi, Susan Boyd
450 Springfield Avenue, Suite 301 • Summit, NJ 07901-2610
Tel: (908) 273-5085 • Fax: (908) 273-6297

December 3, 2015

Edited copy of interim letter sent to individual clients of SeaBridge Investment Advisors.

Where is this bus headed?

The direction of the market is never clear, but as we end 2015, the signs come in large and small sizes and they do not agree.

Foreign economies are struggling to grow, and the big sign is that Central Banks in Europe, China, and Japan seem to be headed toward printing the equivalent of another $1 Trillion in 2016. That would tend to weaken foreign currencies, strengthen the Dollar, and inflate the prices of financial assets around the world.

Because excess capacity overhangs most product markets, capital spending is weak. This leaves free cash flow for companies to make stock repurchases and acquisitions. Our portfolios have benefitted from several holdings becoming acquisition targets in 2015. However, this has not been enough to offset the general downward drift of markets. Nonetheless, acquisitions have supported the stock market during 2015, and appear likely to continue to do so in 2016.

The smaller signs are more numerous and less encouraging:

- 2015 has been difficult year for the market with the "Nifty Nine" soaring and the aggregate of everything else fading. *("Nifty Nine" is a phrase coined by Ned Davis of technical research fame. They are Facebook, Amazon, Netflix, Google, Priceline, eBay, Starbucks, Salesforce, and Microsoft. These are big, fast growing and, in most cases, expensive companies. Their large size gives them heavy weight in market averages. Together they are up 60% for the year with everything else off 3%.*) We own a couple – Google and Priceline - in some portfolios, but not enough due to their high valuations. In the past two eras when market leadership similarly narrowed (1970-72 and 1998-2000), the following few years were quite painful.
- The oil swoon is not over. Demand is growing, but supply has exceeded all forecasts. Excess oil inventory expands and a balance is unlikely to occur until late 2016. Between now and mid-2016, many hedges – companies' forward sales of oil at past higher prices - will expire. As this happens, many small production companies will be unable to service their debt, and there will be turbulence in the oil patch.
- The strength of the Dollar relative to other currencies weighs on U.S. exports. This causes sales and earnings of U.S. companies in foreign currencies to be translated back into lower Dollar amounts. This, plus the sharp drop in energy company earnings and fading outlook for bank earnings, will likely cause U.S. profits to be off in 2015 compared with 2014. Continuing Dollar strength means economic growth and earnings gains are uncertain for 2016.

- Finally, the Fed is likely to start raising interest rates at their December 2015 meeting. After 34 years of generally falling interest rates, markets will probably face the drag of higher rates in 2016. Some argue that this will reduce the attractiveness of bonds and that money will flow from bonds to stocks, lifting equity markets. Others say that rising rates hurt the current valuation of all securities, with the perpetual life and therefore infinite duration of equities hurt the most. Which view will prevail is not clear. A third possibility that bonds and stocks will both fall in value.

So where does the leave our portfolios? We had raised cash in most of our strategies, and in some portfolios, bought some "hedges" (Exchange Traded Funds that go up when markets go down) to increase the portfolio's effective market neutrality. We have begun deploying some of our cash reserves in some strategies as we saw opportunities. Market direction will probably be clearer as we move into January, and we will decide whether to shift to more aggressive or even more conservative postures then. In the meantime we are also doing some tax management, harvesting tax losses, so you may see purchases and sales of some securities for this purpose before year-end.

Several clients have commented that it would be informative if our letters included thumbnail descriptions of the stocks we own. I welcome this because it is the solid business prospects of the companies we own that let me sleep at night in the face of many global uncertainties. Rather than sending an exhaustive list, we are including here brief descriptions of a couple of the more interesting positions in each major style. Other styles tend to hold some of these same companies. Let us know if you like this and we will increase the flow of company information.

With best wishes for the holidays,

Garnett L. Keith, Jr.

(see disclosures at end of company descriptions)

Inflation Fighter:

CP All Pcl (cpallrtb):

CP All is the flagship company of the Charoen Pokphand Group's marketing and distribution business which is headed by Thailand's richest man, Dhanin Chearavanont. CP All's main business is operating convenience stores under the "7-Eleven" trademark in Thailand. This accounts for nearly 60% of the company's revenue. They operate the third largest number of stores behind only the United States and Japan.

We think CP ALL is well positioned to capitalize on the growth of the emerging consumer in Thailand. The convenience store segment (7-Elevens) has approximately 80% market share and low overall penetration in Thailand vs. other more developed countries in the region. This provides an attractive growth story. The 2013 acquisition of Makro's (which some call the Costco of Thailand) cash and carry business provides CP All a dominant position in another growing segment. The majority of the debt from this deal was recently converted from dollar dominated loans to local currency (Baht) which should mitigate some of the currency risk. The company plans to offer a portion of the Marko share to the general public and use the proceeds to pay down debt which could provide a potential re-rating story for the stock.

Celgene Corporation (CELG):

Celgene is an integrated global biopharmaceutical company engaged in the discovery, development and commercialization of therapies in the areas of hematology, oncology, and inflammation & immunology (I&I) through gene and protein regulation. The top drugs in each area respectively are Revlimid for the treatment of multiple myeloma (66% of 2015 revenue), Abraxane for the treatment of lung, pancreatic, and possibly breast cancer (11% of 2015 revenue), and Otezla for the treatment of psoriasis and psoriatic arthritis (6% of 2015 revenue).

Although Revlimid accounts for a large portion of the company's revenue, the current drugs in these other areas offer more diversification than many single molecule biotechnology companies. Even with an expected mid-teen percentage revenue increase for Revlimid in 2016, its overall proportion of revenue is expected to decrease with these other drugs growing at a faster rate. Celgene also has 30 programs in preclinical development, 26 treatments in clinical trials, and 18 pivotal/phase III programs underway.

While the stock trades at a premium P/E multiple to other large cap biotech stocks (19x Next Twelve Months vs. 14x Next Twelve Months), we think the earnings growth rate and expanding drug pipeline more than compensate for this premium (2 Year EPS compound annual growth rate of 26% vs. 13%). After taking into account these metrics, diversification of current treatments, and robustness of pipeline, the stock appears to be trading at a very attractive valuation.

International:

Cimpress N.V. (CMPR):

Cimpress is the leading provider of customized marketing products to small businesses worldwide, and has manufacturing facilities in Windsor, Canada, Venlo, Netherlands, and Deer Park, Australia. The company offers a wide variety of marketing materials, including business cards, brochures, customized apparel, invitations, holiday cards, promotional gifts, signage, website design, website hosting services, and email marketing services.

Increasing scale could be a significant competitive advantage, CMPR has traditionally been highly promotional (250 free business cards, etc.) as part of a "land grab" strategy. However, in 2012 the company initiated a successful multi-year strategic shift away from "price primary" to "higher expectation" customers, which included 1) reducing promotional activity and 2) simultaneously investing in customer service and new product offerings. With this shift largely complete, the company will now focus more on M&A and/or returning cash to shareholders via buybacks.

Importantly, CMPR is the dominant player in a fragmented industry. Their scale allows for mass advertising, a superior internet platform, and a highly efficient manufacturing & supply chain. As a result, unit costs decline with each incremental sale, creating a positive feedback loop for CMPR (and a negative loop for competitors).

Wasion Group Holdings Limited (hk3393):

Wasion Group is a leading energy measurement instrument, system, and service supplier in China. The company operates in three main segments: advanced metering infrastructure (AMI), advanced distribution operations (ADO) and smart meters. AMI covers system solution and services, data collection terminals, communication terminal solutions, and metering data management. The ADO segment uses data from the AMI to manage the electricity in the grid without the need for manual controls. Smart meters are the standardized physical units sold to the State Grid Corporation to meter electricity usage.

With the support of the Chinese government for smart grids, smart power distribution, and energy efficiency management, all three of Wasion's business segments are in the process of undergoing significant advancements and growth opportunities.

ADO is the company's most advanced, fastest growing, and potentially high margin segment but currently makes up just 10% of revenue. China has only 10 to 11% of its advanced distribution operations completed. As the Chinese government aims to achieve close to full penetration by the year 2020, Wasion should be able to leverage its strong position in AMI to provide a competitive advantage in the ADO space.

Longview:

Liberty Interactive Corporation (QVCA):

The company consists of 100% ownership in QVC, the recently acquired Zulily, a China JV, and an equity stake in Home Shopping Network (HSN). The QVC Group engages in video and on-line retail in North America, Europe, and Asia, with products marketed and sold primarily through live televised shopping programs, websites, and mobile applications.

Although a retail company, QVCA's business model has characteristics of a subscription business – their typical customer buys an average of 26 items per year, and customer retention is 85%-90%. This, combined with industry leading margins and low CAPEX requirements, has led to steady and consistent growth in cash flow.

Lastly, a number of unique attributes (such as a tracking stock ownership structure, off-balance sheet China JV, HSN stake, etc.) have added a "complexity discount" to shares of QVCA, and as a result the company is trading at a compelling valuation. Importantly, the company's leadership has proven especially adept at capital allocation, and has historically "captured" this discount through aggressive buybacks (a trend that we think should continue for the foreseeable future).

Post Holdings, Incorporated (POST):

Historically, POST was a manufacturer of branded ready-to-eat cereal in the United States and Canada. However, since December 2012, the company has completed 9 acquisitions valued at over $5 billion, and in doing so has transformed into a diversified packaged food manufacturer. Today, POST's operations include cereal, processed eggs, protein bars & shakes, pasta, nut butters, and organic & natural cereals & snacks.

Generally speaking, POST should be viewed as a hybrid between a traditional public company and a private equity fund. Specifically, the company's portfolio of products generates consistent cash flow, and as a result can support a relatively high degree of leverage. As profits grow, the company can take on incremental debt which, along with free cash flow, can be used for share repurchases and/or acquisitions.

Importantly, Chairman Bill Stiritz previously used this same strategy as the Chairman and CEO of Ralston (a wheat cereal company), where over a 20 year period he made numerous acquisitions, repurchased 60% of the company's stock, and ultimately generated shareholder returns of 20% per year.

Core Global:

Howard Hughes Corporation (HHC):

Howard Hughes Corporation is a position we have held for many years and we continue to believe is undervalued. HHC is a real estate development and operating company and represents a direct play on the US real estate recovery. The company was spun out of General Growth Properties (GGP) as a result of the mall developer's bankruptcy restructuring plan.

The company's assets include a significant commercial operating portfolio, entitled land positions spanning over 13,000 acres, and an attractive development pipeline. Currently, HHC operates over 6 million square feet of retail, office, and multi-family commercial real estate assets expected to generate net operating income of $172 million per year once the recently completed projects are fully stabilized. HHC's land position represents a long term source of high margin capital as lots are delivered to homebuilders for home construction. Lastly, there is the development pipeline fed by a vast array of real estate assets.

Recent weakness in the stock appears to be driven by a misperception in the market related to the company's Houston, TX asset position. Houston, TX is considered the capital of the Oil & Gas industry and many are anticipating weakness in the local real estate market given the industry's recent challenges. We believe HHC's diversified asset base should insulate the company from any near term challenges in the Houston market. At current levels, we believe the development pipeline represents a low cost call option to shareholders as the current enterprise value of the company's assets may be justified by the company's operating asset portfolio and its land position alone. There are many underappreciated developments but one project worth noting that could create significant value is the South Street Seaport, in downtown New York. South Street Seaport will encompass over 300,000 square feet of retail space once completed in 2017. New York City commands some of the highest retail rents in the world and, if the company is successful, a repositioning of this asset would add significant value.

Hubbell Incorporated (HUB):

Hubbell Incorporated is a diversified electrical component manufacturer primarily serving the non-residential construction and the utility power markets, earning 85% of its revenues in the US. It competes in largely fragmented markets that are either cyclical or mature and we believe ripe for consolidation.

In 2015, the stock has performed below expectations driven by its 10% exposure to electrical components for the oil & gas capital sector, which has particularly high margins. The severity of the oil collapse caused a pronounced impact on the company's bottom-line. Going forward, approximately 50% of company sales are tied to the construction end markets, and we anticipate earnings growth to accelerate. Lastly, the company is in the process of rebalancing shareholder voting interests to better reflect economic stakes in the company's equity. We believe this rebalancing removes a significant barrier for a potential acquirer of HUB, significantly increasing its attractiveness as a takeover target.

Hubbell is just one example from our Industrials exposure which we believe the market continues to undervalue due to their exposure to cyclical end markets. This undervaluation was highlighted by the recent take-over offer of another one of our portfolio holdings, Airgas (ARG), by the French multi-national chemical company, Air Liquide, at a 30% premium to the undisturbed stock price. We hope to see industry consolidation in several industrial sectors, which should benefit our portfolio, if the wide discounts to intrinsic value persist.

Asia:

Sporton International Incorporated (tt6146):

Sporton specializes in testing and certifying network and communication electronic devices for global markets. It has the certification capability for integrated cellular technologies for North America and Europe. Because it is the only Taiwanese company that provides complete testing and certification services, the company is uniquely positioned in Taiwan to certify component parts for products related to mobile communication, which includes handsets, notebooks, tablets, broadband hardware and internet of things components. (Taiwan is a major technology hardware component supplier to both its home market and China.) In addition to its core testing and certification business, the company consults with companies seeking certification on technology standards and component design. This has become a small but growing high margin ancillary business inside the firm.

Navitas Limited (nvtau):
Based in Australia, Navitas is a leading global education provider that offers an extensive range of educational services to students and professionals through three divisions. Primary among them are the university pathway programs. In addition to the pathway division, the company also offers creative media education services and professional education and English language training.

Education is one of the world's largest markets, totaling $6 trillion USD and forecast to grow at 8% CAGR. Governments view education, skills development, and research as critical national priorities
However, government funding of education is tightening across all developed countries due to competing priorities, e.g. health, infrastructure, and defense. Navitas is the world leader in creating a pathway for qualified students, primarily Asian, seeking a Western educational experience to matriculate to a Western university. The company partners primarily with universities in Australia, the US and the UK to give foreign students a pathway to a university degree in the form of a transitional first year on campus before full matriculation into a four year university program.

Fifty-three percent of all foreign students at the world's universities are from Asia. There is a strong and growing demand for a foreign educational experience among Asian students. Western universities are eager to meet demand as Asian students are typically well qualified for a university education and are payers of full tuition. So long as mobility of students is allowed by governments, Navitas should grow with demand.

Yield Growth:

Zojirushi Corporation (jp7965):

We are always looking for companies that will benefit from the rising consumption spend of consumers in the emerging countries, especially China. We recently initiated a position in Zojirushi, a small-cap well-established Japanese manufacturer of rice cookers (45% of total sales) and stainless steel flasks (22%). Currently, the company generates 70% of its sales from Japan where it has a leading market share of 25% in rice cookers. We think Zojirushi has a great opportunity to grow in the Chinese market, where the middle to high income consumers have a strong affinity for high quality "Made in Japan" consumer products. It currently only has a 1% and 2% market share in rice cookers and steel flasks, respectively, but it is looking to capture 10% of the market in these two products by 2020. Zojirushi's successful entry into the Taiwanese market in the last 15 years, where it now commands 50% of the rice cooker market, provides a favorable template for execution in the Chinese market. Chinese tourists flowing into Japan should also provide an additional boost to sales. The stock is trading at P/E of 17.5x 2016 earnings, an undemanding valuation for an emerging consumer growth company.

The Charles Schwab Corporation (SCHW):

We recently initiated a positon in Charles Schwab as a way to benefit from a sustainable growth asset aggregator and from higher rates both from a near and longer-term opportunity. Schwab has been able to grow organically at 5%, 2.5x faster than the asset management industry. We expect this trend to be sustainable as it benefits from the retirement of the Baby Boom industry, the doubling of its branch network, and the tripling of its advisor network. Our enthusiasm for Schwab at this time is because we also see it as a hedge in a rising rate environment. If interest rates rise in the next year or two, Schwab is expected to recoup around $750 million of money market fees that has been waived over the last four quarters. Longer-term, it stands to benefit from a possible recovery in net interest margins and the bulk transfers of money market funds to bank deposits. The valuation is on the higher side, but the earnings power of the company is underappreciated if the interest rate drivers of earnings come to fruition in the next two years. Recent brokerage estimates suggest that this year's earnings of $1.00 could double by the end of 2017.

ESG:

First Solar, Incorporated (FSLR):

First Solar operates as a solar energy solutions company. It engages in the designing, manufacturing, marketing and distribution of photovoltaic solar power systems and solar modules with an advanced thin-film semiconductor technology. The company operates in two business segments: Components and Systems. The Components segment designs, manufactures and sells solar modules primarily to solar project developers and system integrators. The Systems segment provides a complete solar power system solution, which includes project development, engineering, procurement and construction services, operating and maintenance services. The company also receives cash flow available for distribution (CAFD) and incentive distribution rights (IDRs) from the parent/sponsor interest in the 8point3 "YieldCo" joint venture with SunPower.

First Solar is one of the higher quality names in the solar space with only utility and commercial exposure (no residential rooftop business), ample cash on the balance sheet, and no debt. Recently market conditions have created some problems in other companies' parent/yieldco funding structure. This is a cause for concern over First Solar's revenue stream from the value attributed to First Solar's interest in 8point3, but this makes up less than 10% of the overall company's valuation.

TerraForm Power, Incorporated (TERP):

TerraForm Power owns and operates contracted clean power generation assets. The company's objective is to acquire assets with contracted cash flows primarily from owning solar and wind generation assets serving utility, commercial, and residential customers. It intends to acquire other clean power generation assets, including wind, natural gas, geothermal and hydroelectricity as well as hybrid energy solutions that enable the company to provide contracted power on a 24/7 basis. SunEdison is the parent/sponsor of this "YieldCo" vehicle.

YieldCos are close relatives of MLPs in the oil space. They provide the parent/sponsor with a cheaper source of funding at the development company level. Once the parent completes a project, the YieldCo purchases the project (using a combination of debt and new equity) with long-term power purchase agreements in place and is, in theory, able to provide investors with a stable, growing yield as more projects are "dropped down" from the parent to the YieldCo.

Recently due to liquidity concerns and some overly aggressive acquisitions at SunEdison, both the stability and growth of distributions at TerraForm have become very uncertain. This creates what some people call a "death spiral". As the parent company runs into trouble, they are no longer able to continue "dropping down" projects which leads to uncertainty at the YieldCo. This in turn leads to a weaker stock price at the YieldCo which increases the cost of funding as they have to issue additional shares to buy completed projects. This process is a self-perpetuating cycle both on the upside and the downside.

The market is pricing in a zero to negative growth scenario for TerraForm which is currently **yielding in the high-teens based on 2016 estimates**. With no access to the capital markets, growth will be severely limited but TerraForm is believed to be able to execute the near-term drop downs with cash on hand. Combining this with the company's current high quality portfolio of assets, retained earnings on the balance sheets, and the use of project level debt financing should allow for the dividend to be maintained. However, distress from over-commitments at SunEdison, TerraForm's parent, has raised doubts about its viability and suggests the need for a corporate restructuring.

Recently a letter was sent to TerraForm's Board from Appaloosa's David Tepper. The letter notes conflicts of interest in the parent/yieldco relationship as well as TerraForm straying from its initial objective of holding fully developed, lower risk projects. Having Tepper on board advocating change is an additional positive for the stock. We are controlling overall risk by keeping position size small. But if financial balance can be regained, TerraForm's assets are trading far below what we think would be a reasonable market value.

Disclosures

Some examples of stocks are shown to illustrate the types of securities held in our various strategies. The profiles may contain opinions and expectations, based on our analysis. There is no assurance that our expectations will be realized and actual results may be significantly better or worse than those expected. These are not intended to be recommendations to buy, sell, or hold these securities. These specific securities may be held in other SeaBridge client or personal accounts. They may be bought or sold from portfolios at any time in the future. There is no representation about the future performance of the stocks. Not all stocks held in the portfolio perform similarly. Some stocks held in the portfolio historically performed much worse than the examples presented. Stocks shown here for a particular strategy may not be held in all portfolios managed according to that strategy, for various reasons including, for example, client-specific restrictions, cash requirements, and size of the portfolio. Some portfolios are too small to invest effectively in some foreign stocks traded in local markets. In some cases we buy ADR's for those accounts instead of the local shares, but not all foreign stocks have ADR's (which are traded in the US).