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Edited copy of letter sent to individual clients of SeaBridge Investment Advisors for the First Quarter 2011

It is remarkable that markets performed as well as they did in the first quarter in the face of a barrage of news which would normally be upsetting. We have continued to hope that high liquidity in the global economy, a sustainable recovery in the U.S. business cycle, strong corporate profits, and money flowing out of bonds into equities would lift equity values over time. However, there are significant causes for concern and our optimism could be disappointed. Here are the headwinds:

- Political control in the Middle East is changing and could threaten the flow of oil. Friction between Israel and the Arab states may increase, and a Sunni (Saudi Arabia) and Shia (Iran) conflict may escalate out of the confrontation in Bahrain. At some level, rising oil prices begin to threaten the world recovery.

- Food inflation is rising, in part due to rising incomes in China and India, but also due to droughts and floods in some major food producing countries. Unless controlled, food price increases will likely cause governments in Asia to tighten monetary conditions and this would slow growth in parts of the world which would otherwise lead a global recovery. Asian markets are depressed because of this prospect.

- The Japanese earthquake and tsunami will disrupt technical product supply chains from autos to iPads. While this should be a transitory problem, we do not really know how large the disruptions will be.

- Public concerns about the radiation leaks in the Japanese reactors have politicians retreating from any support for nuclear energy. Given the world's growing needs for energy, this is a major setback and one which will probably be reversed as the evidence is studied. However, until more is known, the nuclear pullback will put more pressure on fossil fuels, already in somewhat short supply in the fast growing parts of the world.

- The latest news on employment in the U.S. is looking better, but the outlook for house prices has taken a turn for the worse. This is not good news for confidence of either consumers or the banks which hold home mortgages.

With this list of challenges how could the markets have gone up in the first quarter? The answer is that the U.S. market saw a solid outlook for corporate profits, high levels of liquidity supported by the Fed's purchase of bonds to fund our fiscal deficit, and a resulting flow of money into equities from money funds and bonds. However, many markets closest to China were weak during the quarter as inflation fears continued to rise and tightening by central banks increased.

In the U.S., Congress is in active debate over how much and how to reduce our fiscal deficit. We are hopeful for progress, but realistic enough to know that lobbying pressure will be extreme. Therefore, we are on notice that much of our fiscal problem may be solved, over time, by inflating our way out of the burden of the debt. A weak Dollar is certainly consistent with that conclusion, and causes inflation in import prices in the shorter term.

As I said at the outset, we are hopeful that China can slow inflation without crunching its economy and threatening world growth. But we are watchful of the impact of inflation on the profit margins in the companies we own. At best we hope to own companies which will benefit from continuing inflation.

In our Global Trusts style, we cannot be selective about the stocks which other fund managers choose to hold and avoid those where we think steel or oil or agricultural commodities are significant input factors which cannot be passed on to customers in rising sales prices. Therefore, we are somewhat reducing funds, and adding individual stocks which we believe are leaders in their fields and whose growth seems less exposed to inflation than stocks in general.

For the quarter, the S&P 500 index returned 5.9%, the Russell 3000® Index was up 6.4%, the MSCI World Index gained 4.5% and the MSCI World Index ex the USA was up 3.5%.[1]

We are watching developments carefully, and hope that events will sustain our optimism.

Yours very truly,

Garnett L. Keith, Jr.

Note: this is a copy of a quarterly letter sent to clients of SeaBridge Investment Advisors. It is presented in order to illustrate the current thinking of the investment manager. This does not represent an offer to buy or sell securities or interests in any fund.

This letter discusses, in general, client portfolios. SeaBridge manages portfolios for clients in several different styles. Results for individual clients may differ. Results in the future are likely to be different. Please contact Susan Boyd if you wish to see more details on the after-fee returns for any of our investment styles. Please refer to the Form ADV Part II for SeaBridge Advisors LLC (or our website www.SeaBridge.com) for a complete fee schedule. The views presented here represent the opinion of Garnett Keith, Dave Descalzi, John Conti and Susan Boyd of SeaBridge Investment Advisors based on their analysis of publicly available information. The opinions of other analysts based on these data may differ. There are no guarantees that the expectations expressed here will be realized in the future.

[1] Results for these indices (S&P 500, Russell 3000®, Morgan Stanley Capital International All Country (MSCI) World Index and MSCI World Index ex USA) are quoted as being somewhat representative of the broader equity markets for comparison to SeaBridge U.S., global, and foreign portfolios. The SeaBridge portfolios differ from these indices (in number of securities held, industry, sector and country weightings, etc). Therefore, in any given period, results for SeaBridge portfolios are likely to differ from the results for these market indices.