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Copy of letter sent to individual clients of SeaBridge Investment Advisors for the Second Quarter 2011.

In his autobiography, Mark Twain quoted Edward Wilson Nye's reference to "Mr. Wagner's music being better than it sounds". That phrase comes to mind as I review the market's reaction to weak economic statistics in the second quarter, and also to the response of some of our stocks in the market. Our outlook for the second half of 2011 is better than 2Q markets seem to forecast, and, in our view, the outlook for our companies, including those with falling prices in the second quarter, is promising in almost all cases.

This is not a denial of problems around the world.

- The EU has not solved its problems; only pushed the resolution out to perhaps 2013 at considerable expense to the German and French tax payers.
- China has not yet brought food inflation under control and more restraint is probably coming as we go into the fall.
- North Africa is still in a state of political turmoil, and our oil supply could be threatened.
- Our politicians appear to be playing to the voters rather than finding the compromises to solve our fiscal challenges.

In addition to the macro concerns, the spike in gasoline prices hit U.S. consumer spending on other items, and the tsunami-caused dislocations in technology supply chains undoubtedly triggered delays in delivery of some products. U.S. housing statistics showed no immediate relief from bad news. As weak statistics were reported, consumer confidence waivered and manufacturing indices decelerated.

That sounds ominous, and memories of the 2008 meltdown make everyone very nervous. However, developed economies now represent a smaller proportion of world consumption and the global economy will almost certainly grow at a faster rate as the year progresses. Rising U.S. exports to emerging economies are making up much of the weakness that exists in U.S. construction relative to what we would normally expect at this point in the economic cycle. Developed countries like Germany, Canada, Scandinavia and Australia are prospering. China, India, and smaller Asian countries are booming. Latin America is doing well on the back of commodity exports. With real interest rates negative over most of the world, and with incomes rising, it seems unlikely that our economy will start falling again.

The market rally at the end of June let U.S. global growth companies' prices rebound. Financials, energy and bond-like holdings fared less well. Companies in Asia came under pressure from more Chinese tightening.

For the quarter, the S&P 500 index returned 0.09%, the Russell 3000® Index was down marginally at -.03%, the MSCI World Index was marginally up 0.4% and the MSCI World Index ex the USA returned 0.6%. For the six month period, the S&P 500 index gained 6.0%, the Russell 3000® Index was up 6.4%, the MSCI World Index was up 5% and the MSCI World Index ex the USA gained 4.1%.[1]

We are including here separate inserts with more details on our principal portfolios styles.

We are enthusiastic about values reflected in current market prices, and expect the market to be higher at yearend – no guarantees, but our outlook for global earnings growth is good. If the U.S. economy strengthens as we expect in the second half, earnings from the U.S. will probably contribute more than the second quarter market reaction would make one expect.

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.

SeaBridge Investment Advisors L.L.C.

SeaBridge Asia Strategy

Second Quarter 2011
Supplement

Asian stock markets outside of Japan were volatile during the quarter, but managed to end up at the end of the quarter just about where they started. A number of countries including China are tightening monetary policy to curtail rapidly rising prices and this has had a chilling effect on the equity markets. For the following reasons, we believe that there is a very good chance that inflation, now running at about 5% in China and at elevated levels elsewhere, may plateau at slightly higher levels and then come down:

1. The cost of certain food items such as vegetables is trending downward. (Food, at 34%, is the single most important item in the inflation basket.) Internationally traded agricultural commodities such as corn, wheat and soy beans are as much as 25% off their high levels and may remain at more depressed levels if optimism about the growing season, both inside and outside the U.S., proves well founded.
2. Basic metals pricing is also trending downward, reflecting reduced global growth economic expectations. This bodes well for moderating cost pressures on finished goods in the manufacturing sector and margin expansion at companies in the manufacturing supply chain.
3. Credit creation has decelerated sharply in China with credit still expanding but at a much reduced rate. Fixed asset formation is under considerable pressure.
4. Growth in the developed world remains subdued.
5. The U.S. dollar seems to have stabilized against gold and the other major currencies. A weak dollar is a root cause of imported inflation in the region.

There will be no clearer signal for an upturn in the markets in Asia than a sense that the inflation curve is bending toward normalcy.

It is not inflation alone that has made investors wary about China and the region. There is evolving concern that loans made by local Chinese governments as part of national program to stimulate the Chinese economy during the recent crisis will sour and threaten the country's entire financial system. Additionally, many investors have been badly hurt by short selling of Chinese firms suspected of accounting malpractice. For these reasons, investors have either lost interest or are becoming more hostile to the "China" story. Generally, we view the China-bashing and poor investor sentiment surrounding the region as an opportunity. Our view is that the Asia growth story driven by China is still very much intact. We believe that China will work through the current turmoil and that the banking system will not collapse. The occasional incidence of corporate fraud is disturbing but too infrequent to become overly concerned. Because of the nay-saying, equity valuations, particularly of companies of Greater China (China, Hong Kong and Taiwan) have lagged fundamentals and are becoming increasingly attractive. We look for a better second half in Asian equities.

David Descalzi
July 8, 2011

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SeaBridge Investment Advisors L.L.C.

SeaBridge Core Global Strategy

Second Quarter 2011
Supplement

The SeaBridge Core Global strategy continues to be invested based on the assumption that the economic soft-patch experienced in the first half of 2011 will prove to have been a transient phenomenon. The combined effect of an oil price shock, Japanese supply chain disruption, and extremely harsh weather represented a formidable headwind for the U.S. economy. The good news is that all three of these factors seem to be in the process of reversing as we enter the second half of the year. As a consequence, we expect economic activity to accelerate in each consecutive quarter of 2011 and to achieve an annual run-rate of 3.5% GDP growth by the end of the year. If this economic assumption proves to be correct, the employment environment should also continue to improve, and we may see the early signs of an improvement in the housing market by the end of the year.

The elasticity of demand for gasoline seems to experience an inflection point at $3.00 per gallon, and another at $4.00 per gallon. In the fall of 2010, the price of gasoline in the U.S. was $2.50 per gallon. By January, gasoline entered the danger zone as it eclipsed $3.00 per gallon. By the end of May, the national average price of gasoline hit $4.00 per gallon, which simply crushed consumer confidence. In the past month, the price of gasoline has declined to approximately $3.50. While still solidly in the danger zone, gasoline may continue to decline as the summer driving season wanes. This hopefully should provide the economy with a bit more breathing room.

The supply chain disruption stemming from the Japanese earth quake/tsunami is already beginning to dissipate. The auto industry, in particular, was affected by the lack of availability of parts from Japan in the second quarter. We have yet to see the preliminary estimate of second quarter GDP, but the supply chain disruption may have held economic growth in the U.S. to a level only modestly better than the 1.9% GDP growth that we experienced in the first quarter. Happily, the Chicago PMI and the broader ISM Manufacturing index both increased in June, which suggests that the worst of the supply chain disruption may be behind us and sets the stage for an acceleration in economic activity in the third quarter. Specifically, the Chicago PMI came in at 61.1 up from 56.6 the previous month. The ISM Manufacturing index jumped from 53.5 to 55.3. In contrast, the ISM Non-manufacturing index declined from 54.6 to 53.3 in the past month. These data points would be consistent with a recovery in auto production resulting from alleviation in the supply chain disruption, but a services economy that continues to be dampened by a still elevated price for gasoline.

The harsh weather experienced in the U.S. last winter and spring also likely inhibited economic activity, but to a much lesser degree than the price of gasoline and the disruption in auto production. Nonetheless, weather was a disruptive force that is now abating. There is still some lingering flood activity in the mid-western U.S., but we see nothing that has the potential to inhibit economic activity in the third quarter to the extent that the heavy snow and rain experienced January through April may have inhibited growth in the first and second quarter.

While it is always interesting to observe and evaluate the economic statistics, let’s not forget that, ultimately, we invest in companies. Despite the economic soft-patch, companies still seem to be prospering. In the most recent month, two of our portfolio companies reported earnings and gave us a glimpse of current business conditions. Pall Corp reported its third fiscal quarter, which ended April 30th, and Actuant reported its fiscal third quarter, which ended May 31st. Both companies reported earnings ahead of expectations and sales continuing to grow at a double digit pace. In addition, both companies reported stable business conditions. In fact, Robert Arzbaecher, CEO of Actuant, noted that “It was a strong quarter by all measures and we expect that momentum to continue into our fourth quarter and next fiscal year.”

The second quarter earnings season for most of the companies in our portfolio will commence in the latter half of July. In contrast to the first quarter earnings reports, we expect to hear some of the companies in our portfolio express some softening in business conditions resulting from the first half economic soft-patch, but if Actuant and Pall Corp have provided us with a glimpse of business conditions in the June quarter, perhaps we may be pleasantly surprised.

John Conti
July 6, 2011

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SeaBridge Investment Advisors L.L.C.

SeaBridge International & Inflation Fighter Strategies

Second Quarter 2011
Supplement

The second quarter was a hard quarter for our International and Inflation Fighter Portfolios for both macro and micro reasons. The macro reasons are that inflation is high in the booming emerging markets, and central banks are aggressively tightening credit conditions. This means that flows of money from funds in New York and London are diminished and in many cases reversed. The bottom line is that many emerging market stock prices are falling even if earnings are increasing.

There were also two micro problems: First, one of our stock positions, Sino-Forest, was charged with accounting fraud by a short selling hedge fund in Hong Kong named Muddy Waters. The stock fell by 75%. The company manages tree farms in China. We reviewed Muddy Waters' charges and reports and the company's replies. We concluded that Muddy Waters' questions were better than Sino-Forest's answers. We sold the stock at a loss exceeding 1% of total portfolio values. The company's largest shareholder, John Paulson's New York hedge fund, also sold. However, Wellington Management, a highly skilled Boston manager, bought as we were selling. History will show whether it was right to sell, but our conclusion was we are not in the business of owning companies with serious accounting issues, even if they have Ernst & Young as auditors and retired Ernst & Young partners on their Board.

Our second micro problem was that, as oil prices fell, the prices of oil exploration and production companies fell, including several companies in Canada about which we are very enthusiastic. Our first reason for enthusiasm about these companies is they have good yields and produce and own hydro carbons in North America. This is a good hedge against oil supply risks in the Middle East. Our second reason is that horizontal drilling in Canadian "tight sands" formations provides returns on investment in excess of 40%, and we believe that these companies will get more valuable at anything approaching current oil prices. Our third reason is that pipelines are being built to ship oil and gas to the Canadian west coast for shipment to Asia. This plugs these companies' production into a part of the world where the demand for hydrocarbons is growing fast. Nonetheless, the stock prices fell sharply in the second quarter.

Aside from those two problems the stocks in our portfolios performed acceptably. The large global growth companies were weak until the last week in June and then rallied powerfully. I believe that global companies taking advantage of emerging market growth provide the best reward versus risk balance in global markets today. We are gradually reducing the over-sized cash and bond positions which we held during the quarter to add to positions in these companies. As reported in the cover note, we look for a somewhat stronger growth and better stock prices during the second half of the year. Consensus earnings forecasts for our portfolio companies show earnings increases in excess of 15% for the year and, unless there is a major crisis, that should lift stock prices.

Garnett L. Keith
July 8, 2011

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SeaBridge Yield Growth, Global Trusts & Cautious Core Strategies

Second Quarter 2011

Supplement

2Q2011 comprised three calendar parts - the first four weeks, the next 8 weeks, and the last week. In April, the markets were choppy but with a strong rally to end the month. May and June saw disappointing economic statistics, a rally in bonds, and a stock market sell-off to lows for the year. The last week saw growth fears lessen, rising interest rates, and a powerful stock rally which pushed some global growth stocks back near their highs.

Our portfolios are also of three parts – Cash and fixed income holdings; global growth companies and funds; and a mixture of high yield equities, REITS, and Master Limited Partnerships. When markets are going up, stocks generally do well, but fixed income and cash investments lag behind and even fall in price if interest rates are rising and bond values are falling. When markets are falling, the stocks do badly but bonds can go up in value if the cause is economic concerns which imply deflation and falling interest rates.

High Yield Equities are a hybrid – they tend to move with their own rhythm. REITs owning government guaranteed mortgages do well when interest rates are falling; commercial mortgage REITs and business development companies, which lend money to smaller businesses, generally do well when the economy is growing and their loan portfolios are experiencing fewer defaults; master limited partnerships provide fairly stable growth and a good yield, but occasionally get hit if interest rates rise sharply or if there is some uncertainty about the continuity of the tax deferred status of their dividends.

How did it all add up for the quarter? Canadian energy companies, which we like for their growing production based on horizontal drilling, did badly as oil prices fell. Commercial and non-guaranteed residential mortgage REITs did badly as concerns about the economy raised doubts about a double dip recession and rising defaults. Chinese toll roads did badly as rumors circulated (subsequently proven false) that Beijing would cut the prices on toll roads to help fight inflation. MLP’s rebounded from earlier concerns about their tax status. Our fixed income did OK, and our growth equities, on average, did well.

As you have seen in our cover note, we are looking for stronger growth in the second half of the year. The future is uncertain and we plan to keep the portfolios diversified. But our hope is that fixed income will do less well as doubts about the economy dispel. In that environment, we hope the business development companies, toll roads, Canadian oil drillers, and global equities should do well.

Garnett Keith
July 8, 2011

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