SEABRIDGE
INVESTMENT ADVISORS, LLC

Asia Strategy Q2 2022

Portfolio Manager: Dave Descalzi
Investment Style: Asian Equities

The Asia Strategy seeks to invest in companies that operate mainly in Southeast Asia that supply goods in support of the export trade, capture the full return potential of manufacturing that increasingly involves automation and higher value-added goods, address the needs of a rising consumer class in Asia, benefit from China plus one theme, and/or generally benefit from the higher growth profile of the region.

Outlook and Positioning:
As in past quarters, China again holds the key to investment in the region but continues to be a conundrum for us given its well-documented economic challenges, including its economy crushing, zero Covid tolerance policies and a massive residential property bust. Furthermore, there is a policy risk of a purely political nature associated with the forthcoming National Congress meeting this October. Liberals in the CCP are lobbying for a more vibrant private economy, and conservatives are perhaps doubling down on state-directed initiatives that promote "common prosperity." This government inspired idea may translate into more state control of everyday life. This affects the investment landscape in sectors the CCP considers essential. It is a long list compiled based on a broad definition of homeland security, which means what the party wants it to mean.

For these reasons, we have long avoided direct investment in China per se but believe that because of its size and the growth potential of the world's second-biggest economy, it is too big to ignore completely. China affects the growth profile and investment landscape of the entire region. Our "China" exposure has been achieved in other ways, mainly through our investments in Taiwan, Singapore, and Thailand, where we can find companies that feed China's export engine, which we believe is the only part of the Chinese economy that is now working. Although we expect this growth engine to throttle down as the world slows, the developed world will likely still rely on China for most of its technology hardware and other everyday goods. On the other hand, we expect domestic consumption in China and the region generally to remain subdued and are inclined to deemphasize consumer products and services companies in the coming quarters.

The most encouraging dimension to China's current state of affairs is the amending of its Covid policies. Notably, China has recently reduced the quarantine period to seven days from 14 for everyone entering the country. While this may not be enough to jump-start business travel and tourism in the region, it is a policy heading in the right direction. The end of quarantine may be the signal necessary for investors to believe that the global supply chain is healing post-Covid and that the region is finally on the road to normalcy. We are not quite there.

Contributors and Detractors:
After a difficult first quarter, the challenges have continued and even intensified during the second quarter. While there is little pleasure to find in portfolios that are down low double digits year-to-date, the strategy is still performing well on a relative basis versus the MSCI AC World ex U.S. Index. Contributing to our performance in the second quarter were our real estate holdings. The sector as a whole was roughly in line with the broad indices. Still, we were able to sift out a few names such as Ascott Residence Trust and Link REIT which managed to finish the quarter almost flat. Lack of energy exposure was the most notable detractor for the strategy. Correlations among the different sectors, geographies, styles, etc., tend to increase during these periods of stress, so aside from the areas mentioned, our active exposures did not lead to any other significant deviations.

Portfolio Activity:
As was the case in the first quarter, activity in the quarter just ended remained low. We believe our naturally conservative approach to investing helped us weather the market storm. Our modest selling was limited to the taxable accounts as we harvested losses in names such as iFast, Tencent, Techtronic, Johnson Electric, and Amada. We will likely add back to most of these holdings after the wash sale period expires in July. On the buy side, we increased positions in Cleanaway, Fisher & Paykel, and Taiwan Semi with the intention of harvesting losses in July from the older high-cost basis lots. We were also more active in managing the cash position of the portfolio. Expecting interest rates to rise, we had not in recent years been taking duration risk with the cash. More recently, the rapid rise in rates has prompted us to use two shorter-term Treasury ETFs to earn some yield while we search for stock ideas.