SEABRIDGE
INVESTMENT ADVISORS, LLC

Longview Strategy Q2 2022

Portfolio Manager: Adrian Morffi

Investment Style: Global Equities

The Longview Strategy is a concentrated global, long-only equity portfolio with a target of approximately 25 positions. We prioritize investments first by their end market prospects (demand) and secondly by their position in the marketplace (supply-side). Once comfortable with end markets and the company's position, we consider the business quality and the merits of the management team. If it is the right business with the right partners, we know we want to own the stock; the price will signal the right entry point. Valuation determines when we make investments, not the type of investments we make.

Outlook and Positioning:

Performance in the second quarter was poor across risk assets as equities and bonds reported heavy losses. In response to increasingly stubborn inflation rates, the Federal Reserve ramped up its tightening efforts, which caused markets to swoon. On a brighter note, the private sector continues to be strong. We believe the household sector is benefiting from a strong job market, high wage growth, and unprecedented levels of savings, which accumulated during the pandemic years and remained unspent by consumers. Businesses are in a position of similar strength and have record levels of earnings and margins while balance sheets remain healthy.

We expect the path of interest rates to continue to be an important determinate of market prices in the short term. This will be driven by developing inflation trends over the next 3 to 6 months. The price weakness can likely be attributed to the cost of capital repricing. The market's price-to-earnings ratio contracted from 22x to 16.5x, or approximately 20%, as interest rates increased, which repriced risk assets across the spectrum with equities taking the most significant hit. Earnings estimates have largely remained unchanged since year-end. This is an area of concern; however, the lower absolute levels of valuations should provide some support for stock prices.

Contributors and Detractors:

Some of the largest contributors to our performance in the second quarter were JD.com and Post Holdings. The former is a Chinese technology company that produced positive returns during the quarter. As the Chinese economy began to reopen following a period of lockdown due to another Covid outbreak, JD.com reported more robust earnings. The business benefitted from the increasing demand for its e-commerce services which drove rising levels of profitability. The recent headlines from Beijing also appeared to indicate regulatory concerns were overblown. Post Holdings was also relatively strong following the recent spin-off of its majority stake in Bellring Holdings to shareholders in the first quarter. This appeared to drive a re-rating in the remaining company assets as the operations became more straightforward for the market to value. The recent earnings report indicated the company should benefit from the inflationary environment. It demonstrated pricing power in key product categories enabling higher prices to be passed on to customers and thereby preserving margin profitability for this food staples company specializing in cereal brands.

Some of the most prominent detractors of performance during the second quarter were Lyft and Netflix. The companies declined 40% as markets generally rotated away from growth to value. Following the selloff, we added to our position in Lyft as we were encouraged by its first quarter earnings report. We believe the fundamentals demonstrate improving business quality and demand outlook for its services. At a price-to-free-cash-flow below 12x, it trades at a significant discount to the S&P 500 while offering above-average growth prospects. We acquired our position in Netflix during Q1, following a weak Q4 earnings report. Following its Q1 earnings report, the weakness continued into Q2, resulting in another large drawdown in the stock. We have not added to our starter positions in Netflix despite its discounted valuation at a 16x P/E ratio. We are looking to the upcoming Q2 earnings report to understand how resilient the business is to stricter policies involving sharing membership login information across multiple devices. As the company raises prices and restricts users' ability to share login information with family and friends, we think it could prove the ultimate test of the company's pricing power with consumers.

Portfolio Activity:

The second quarter had a higher than usual level of turnover. Although, it was less than the prior quarter. We reduced our industrial holdings by selling Enovis, a medical technology company focused on orthopedics. The stock had been a successful investment, and our decision to exit was driven by its valuation premium to other similar assets in the marketplace. We continued to increase our allocations to technology on the sector's weakness. We initiated an investment in Salesforce and increased investments in Lyft and Spotify.

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