SEABRIDGE
INVESTMENT ADVISORS, LLC

Asia Strategy Q1 2023

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:

Asian markets were lackluster in the first quarter as investors considered the regional benefits of a post-Covid, China reopening against a backdrop of macro stresses that culminated in two high-profile bank failures in the U.S. near the end of the period. While Asia's labor costs and inflation are more subdued with the region, thus not requiring aggressive central bank action, it is not immune to the adverse consequences of money tightening globally. That said, China's abandonment of its zero Covid tolerance policy likely translates into a more efficient supply dominated by China, and increased consumption, mainly services related. These developments will likely benefit China and the economic outlook in neighboring countries, the latter of which is more important to the Asia Strategy. Absent adverse developments overseas, we are cautiously optimistic about Asian equities.

While China's markets may get a near-term bump because of improved sentiment for reasons cited above, we have long believed that the country's poor demographics and increasingly authoritarian control over the economy will broadly weigh on the Chinese markets in the longer term. Our attention, therefore, is directed to the region's beneficiaries of China's reopening, the adjacent countries in the area. We believe tourism will almost surely ramp up, benefiting transportation, lodging, and mall companies, particularly in Southeast Asia. We will look to increase our holdings in Japanese automation and machine tools companies which should benefit from a more reliable supply chain and increased capital deployment to mitigate the effects of inflation among manufacturers. Finally, we continue to like Taiwan industrials which should benefit from a new chip cycle.

Contributors and Detractors:

Sporton and ASM Pacific Technology were the most significant contributors to the portfolio's performance. Sporton is a Taiwan-based product testing and certification service provider specializing in electromagnetic compatibility and product safety. The company has recently collaborated with customer Asus to obtain the first FCC certification for Asus' cutting-edge Wi-Fi 7 access point. ASM Pacific is one of the leading makers of semiconductor mounting machines, which packages chips for use in technology hardware. We are positive on ASM Pacific due to the company's lower profile in a politically charged sector, but that nonetheless provides essential equipment for the global semiconductor supply chain. Link REIT, a Hong Kong investment property company, and L'Occitane, a skincare products company, were the largest drags on performance in the period.

Portfolio Activity:

During the period, we eliminated some names and incrementally added to others. We exited our holdings in the Singaporean fintech service provider iFast and Taiwan Cement, which continues to be affected by property market turmoil in China. Additionally, we sold the rights issued by Link REIT, the Hong Kong-based retail property REIT, which decided to raise additional capital for the first time since its listing in 2004 to strengthen its balance sheet and expand its war chest for future acquisitions. We reluctantly sold the rights as regulations prevented our subscription. However, we continue to hold the shares. Finally, early in the quarter, we increased exposure to Taiwan Semiconductor, the world's largest semiconductor foundry, and ASM Pacific Technology, the semiconductor mounting equipment maker. Some cyclical weaknesses in chips had hurt each, but we believe both should benefit from the inventory correction that is now underway.