SEABRIDGE
INVESTMENT ADVISORS, LLC

Asia Strategy Q3 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:

The outlook for investment in Asia is much like that of the rest of the world. Coming off a challenging quarter, we see prospects improving in Asia only at that time when inflation begins to subside, central banks turn less hawkish, and the dollar weakens. The more localized consideration for investment in the region is China. For many reasons, China has lost its luster among the international investment community due to its policy missteps, including the mishandling of a residential property bubble, its alliance with Russia, its belligerence toward Taiwan, and its poor treatment of the people of Hong Kong. Taken together, these are potent disincentives not only for foreign fixed asset formation in the country but also for portfolio investment. Of course, we would never say never about our disinclination toward adding Chinese companies to our portfolios. Still, we would need to be persuaded by more than clearly cheap valuations for us to do so.

As for the rest of the region, we believe China's loss is other countries' gain. The offshoring of Chinese production to neighboring countries continues apace, with India, Vietnam, Thailand, Indonesia, and Malaysia the principal beneficiaries. Additionally, although steadfastly a zero Covid tolerance nation, China has recently allowed Hong Kong to reduce its quarantine requirements for overseas travelers to 0 + 3, which means international travelers entering the city no longer need quarantine in a hotel. Instead, a mandatory three-day stay at any establishment, including the home, would suffice. This may not kick start a substantial inflow of foreign visitors or business travelers into the city, but it may help promote travel and tourism outside China involving Hong Kong residents no longer required to undergo a much stricter quarantine regimen upon returning home. This again should benefit other countries in the region, particularly Thailand and Singapore.

Contributors and Detractors:

Asian markets turned in the worst quarter for the year with the MSCI All Country Asia ex Japan Index down a staggering 13.8%. Much of this move occurred in the closing weeks of the period. The portfolios were not immune to this downdraft. Cash holdings in the portfolios helped dampen some of the price declines. Absolute contributors were hard to come by, but our conservative positioning helped the strategy significantly outperform on a relative basis. Stock selection in two of our more heavily exposed sectors, information technology and real estate, were also relative contributors. However, being overweight real estate hurt from an allocation standpoint as it lagged the overall index. Being underweight growth stocks was another area that contributed to relative performance as those stocks were hit the hardest during the period.

Portfolio Activity:

Activity remained low during the third quarter. We continued to focus on tax loss harvesting for taxable accounts. Techtronic, Johnson Electric, and Amada were sold in early June to harvest losses. The positions were reestablished in July once the wash sale period had expired. Citigroup and iShares MSCI South Korea ETF were another two names that were sold and then bought back during the quarter. Finally, Cleanaway had been increased during the month of June so that we could realize losses from the high basis lots in July.