SEABRIDGE
INVESTMENT ADVISORS, LLC

Core Strategy Q1 2023

Portfolio Manager: David Descalzi & Adrian Morffi
Investment Style: U.S. Equities

In the SeaBridge Core Strategy, we seek investments primarily in U.S. equities and, opportunistically, international equities. We have a particular interest in the changes to consumer behavior induced by the pandemic related to e-commerce, remote work, and a focus on home improvement. We believe these trends are secular and will generate investment opportunities post-pandemic in U.S. companies. Core is a style-agnostic strategy that may hold value as well as growth equities so long as there is a path evident for value to be realized and growth is reasonably priced.

Outlook and Positioning:

The economic environment in 2023 has been anything but stable, leading to market volatility and turbulence. Inflation has been a significant concern for investors, and the Federal Reserve has been working hard to communicate and implement policies to address it. As a result, interest rates have risen substantially over a short period, with the 3-month T-bill yield most notably climbing over 5% during the quarter, the highest level in more than 15 years. Rate increases instigated by the Fed could have had a secondary effect of precipitating the collapse of Silicon Valley Bank and causing stress in the overall financial system. The heightened volatility in the equity and bond markets during the quarter most likely resulted from higher-than-expected inflation and more restrictive monetary policy by the Federal Reserve.

Stocks may continue to be highly unstable. While unsettling, opportunities are created in times of uncertainty as the shares of many sound companies are penalized unfairly in the sector rotations that typically occur in periods of shifting uncertainties. While we maintain a generally cautious stance on the portfolio, we will opportunistically pick up shares in such names. While we wait, the portfolio holds an elevated exposure to short-duration Treasury investments. With an average maturity of less than two years and yielding more than 4%, we believe the allocation provides relatively attractive risk-adjusted returns in this environment.

Contributors and Detractors:

Our most significant contributors to performance in Q1 were Spotify and Salesforce. After being penalized in 2022 for its misguided spending program, Spotify's CEO published an open letter in January that signaled a change in focus from growth at all costs to prioritizing profitability, which was viewed positively by investors. The message was characterized by accountability and modesty. Spotify may have turned a corner by adopting a more disciplined financial management approach. Recent results indicate that its effects are beginning to bear fruit. Salesforce has been under pressure from activist investors, who have taken a hostile approach in their push for changes at the company. This has led to increased scrutiny of cost-cutting measures and a greater focus on shareholder value. To address these challenges, the company's founder and former long-time CEO, Marc Benioff, returned to running the company in November. Investors have welcomed his return due to his successful track record of driving growth at Salesforce. Since returning as sole CEO of the company, Salesforce's stock has rallied sharply on the back of improving sector sentiment, earnings, and full-year guidance for FY 2023.

Pfizer and Regions Financial have been disappointing stocks this quarter. Pfizer, a leading pharmaceutical company, has faced challenges due to the expiry of some of its key patents and increased competition in the industry. The company's Covid vaccine sales have been a bright spot, but we remain apprehensive about its long-term prospects for growth. We believe that Pfizer needs to continue to invest in R&D and acquisitions to stay competitive. Similarly, Regions Financial has struggled to maintain momentum due to the highly competitive banking industry and the impact of higher interest rates on funding costs and profitability. The company needs to focus on improving duration imbalance between assets and liability and exposure to changes in interest rate risks. These risks have proven costly for other similar mid-size lenders – like First Republic. The affected companies saw substantial declines in their stock prices as investors adjusted book values as if investment securities were reported at fair value on the company balance sheet. While we maintain exposure to financial companies, we are underweighted in the sector compared to the S&P 500.

Portfolio Activity:

We purchased Chevron and Exxon shares in the fourth quarter, two major oil and gas industry players. With the current inflationary environment, we believe the energy sector is a good hedge against rising prices. Additionally, we added to our holdings in AIG, one of the world's largest insurance companies. We sold or reduced several investments, including Regions Financial, Hubbell, ITT, nVent Electric, Tapestry, and Horace Mann.