SEABRIDGE
INVESTMENT ADVISORS, LLC

Core Strategy Q3 2022

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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:

It has been a challenging year for U.S. equities. Inflation has been at its highest level since the early eighties. Interest rates have risen sharply; an economic slowdown, perhaps a significant one, looms. This macro backdrop makes finding a haven in financial markets nearly impossible. U.S. markets are not alone in seeing substantial declines. Virtually all international markets have posted losses like those of the U.S. Bonds, typically a "safer" asset class that outperforms equities in down markets, have also been hit hard by market conditions. So, what do we do?

We stay the course. Cash levels, elevated from earlier profit-taking, allow us to buy stock across the style and market cap spectrums. We are looking among those market segments most affected by rising interest rates and declining earnings expectations. Quality of company management, strength of balance sheet, reliability of cash flow, a record of return of capital to shareholders, and a company's competitive position are attributes we are looking for in building our target universe. We are particularly attracted to companies that operate in areas of strong secular growth potential, such as automation and the ongoing buildout of the internet. Since earnings expectations have not reflected the economic slowdown we expect, we are in no hurry to add to our existing positions.

Contributors and Detractors:

The most significant contributors to our performance were industrial and commodity holdings. The most important single contributor was Hubbell which returned 25% during the quarter. The substantial outperformance, absolute and relative, for this large-cap company was unusual. We believe it indicates investor confidence in management's targets shared at the June investor day combined with a better-than-expected earnings report. Another sizeable positive contributor was the commodity producer CF Industries. The company is a domestic producer of nitrogen fertilizers, a critical element of a farmer's production yields. The benchmark price for nitrogen fertilizer has risen more than 230% in the past two years while CF's sale volumes have been flat.

The most significant detractor from performance was Steelcase followed by Sysco. Steelcase is a provider of office equipment to corporations. The stock has fallen more than 30% following a poor earnings report just before quarter end. The new information challenged our thesis of a gradual recovery in the rate of workers returning to the office. The recovery has stalled, and it is unclear at what level the post-pandemic work-from-home rates will normalize. Consequently, we sold. Sysco underperformed, falling 17%, although it has managed to hold up well, relatively speaking, YTD. The recent weakness likely stems from a muted guidance for FY '23 as inflation conditions impact profits. We still believe this business has better than normal ability to fight inflation as many of its customer contracts allow for cost plus pricing.

Portfolio Activity:

We added to one investment and sold or reduced another three positions. Paramount (formerly Viacom) was a top holding in 2021 before we substantially reduced the position at an extremely elevated price level. After a 75% decline, valuation once again seemed favorable as fundamentals in its streaming business improved. We exited Verizon following a series of poor business updates. These indicated to us that our thesis on Verizon preserving its dominant position in the cellular industry was wrong, T-Mobile should continue to be a well-positioned competitor to Verizon and thus, likely affect the latter company's growth potential. We have little faith in Verizon management's ability to address the clear threat that T-Mobile poses for their business. Finally, we sold FedEx after a recent business update sapped our confidence. FedEx's new CEO withdrew positive guidance provided just nine weeks earlier at a rare, highly publicized investor day.