SEABRIDGE
INVESTMENT ADVISORS, LLC

Global Diversified Q3 2022

Investment Style: Global Equities & Fixed Income

SeaBridge Global Diversified Strategy seeks to achieve risk-adjusted investment returns over the medium to long-term by investing in high-quality companies and fixed income investments at attractive prices, while exercising a deep understanding of the macroeconomic environment to manage investment risk. Companies are selected based on our fundamental research, utilizing a long-term horizon and seeking to invest in quality and value. Depending on the client's objective and risk tolerance, the strategy seeks to provide capital growth, current income, and preservation of capital through a portfolio of stocks and fixed income investments.

Outlook and Positioning:

The third quarter began with a rally in risk assets with the idea that the Federal Reserve (Fed) would stop hiking interest rates by year-end and start to cut rates by the middle of 2023. This market rally fizzled quickly in mid-August as stubbornly high inflation elicited a very hawkish commitment from the Fed to increase interest rates further. We believe that the Fed is committed to using monetary policy to slow down the economy to lower inflation meaningfully, making for volatile and challenging markets. More importantly, the shift in expectations of rates reflects the market's admission of the prospects of a higher, long-lasting rate cycle. Both equity and fixed-income markets went down to reflect higher rates. The S&P 500 and U.S. Aggregate Bond Index decreased by 4.9% and 4.8% in the quarter.

Financial valuations are relative, and investment returns are only as appealing as the next best alternative. We remain cautious in the equity markets as lower earnings expectations may not be reflected in the stock prices. There are concerns about how higher wages, rising interest rates, less available capital, and a potential decline in consumer spending will affect earnings. We are beginning to find value in some areas of fixed income as yields have repriced to multi-year highs. During the quarter, we repositioned the fixed income portion of the portfolio to government and high-quality investment-grade bonds while extending the duration. However, bond prices could decline further if rates continue to rise in the near term.

Contributors and Detractors:

Organon and Seagate were two of the largest detractors to the portfolio this quarter. Organon, a spin-off from Merck in 2021, is a pharmaceutical company that has been struggling to drive sustainable growth in its Women's health business and biosimilars to offset the potential sales challenges in its established off-patent pharmaceutical business. Seagate, a leader in storage technology, reported disappointing earnings and cut earnings guidance due to several economic issues, such as cautious purchasing behavior from customers, inventory corrections, and supply chain issues. We believe both Organon and Seagate are trading at very inexpensive valuations and reflect a lot of the negativity surrounding these stocks.

Sporton and Hubbell were the largest contributors to the portfolio this quarter. Sporton is the leading certifier of electronic equipment in Taiwan. Its certifications are accepted by U.S. regulators while China's are not, thus placing Sporton in a favored position among companies in its industry. Hubbell held its first investor event since the pandemic and highlighted the company as an attractive way for investors to play the theme of secular electrical infrastructure modernization.

Portfolio Activity:

We initiated two new positions in Netflix and Paramount. Netflix stock has declined materially this year following news on subscriber losses. We think the market is underestimating Netflix's tailwind to profitability. We see more efficient revenue conversion to free cash flow as the business is leveraged to higher pricing, less sharing per account, falling Covid production cost, and declining content spend per user. After a 75% decline in Paramount (formerly Viacom), valuation once again seemed favorable as fundamentals in its streaming business improved. We also think Paramount is a take-over target in an industry that is ripe for consolidation. We exited Carlyle in the quarter. Carlyle, an alternative asset manager, was sold after an abrupt resignation from the CEO reduced our confidence in the company.

At the beginning of the quarter, our bond composition was tilted toward low duration and high quality, which helped shield it from the rapid rise in interest rates. With rates now meaningfully higher across the curve and the markets beginning to price in a slowing economic environment, we increased the portfolio's duration by adding to U.S. treasuries and high-quality investment-grade bonds. The reallocation may dampen a growth shock in the equity portion of the portfolios. We are still light on exposure to high-yield and leveraged loans due to concerns about widening credit spreads. However, we are looking closely at opportunities in closed-end funds as the discounts to net asset values are beginning to widen meaningfully from historical averages. Closed-end bond funds have historically been a reliable source of yield and diversifier for our portfolios.