SEABRIDGE
INVESTMENT ADVISORS, LLC

Global Growth Strategy Q1 2023

Portfolio Manager: Adrian Morffi
Investment Style: Global Equities

The Global Growth Strategy seeks to invest in a diversified portfolio. We prioritize investments first by their end market prospects (demand) and secondly by their position in the marketplace (supply-side). Once comfortable with end markets and the company's position, we consider the business quality and the merits of the management team. If it is the right business with the right partners, then we know we want to own the stock and the price should signal the right entry point. Valuation determines when we make investments and not the type of investments we make.

Outlook and Positioning:
Persistently high inflation has remained a key concern for investors. Despite the Federal Reserve's efforts to communicate and execute its policy goals effectively, the market still needs to be convinced of its efficacy in curbing inflation. As a result, interest rates have continued to rise, with the 3-month T-bill reaching a yield of over 5% during the quarter. Since then, rates have declined sharply following the Silicon Valley Bank collapse and ensuing banking system stress. Moreover, mortgage rates have increased, making it harder for potential homeowners to afford a home. Against this backdrop, we have maintained a cautious stance, with an above-average level of short-duration fixed-income investments. The blended positions in these instruments yield north of 4% and should add protection during volatile markets.

Contributors and Detractors:
Spotify and Salesforce were among the most significant contributors to a strong quarter for Global Growth. Spotify's recovery was aided by the CEO's open letter published in January. It marked a turning point for the company by emphasizing the prioritizing of profitability instead of growth. This was a welcome change for investors concerned about the company's high investment spending. The message's tone was one of modesty and accountability and may have helped restore credibility with investors. However, the company has been facing declining profitability despite investing heavily in podcast content, which had previously led to solid revenue growth. As a result, Spotify was penalized in 2022 for this misguided investment spending program. In 2023, the company appears to have made a turning point by adopting a more disciplined approach to financial management. Salesforce has faced pressure from activist investors, who have taken an aggressive approach in their push for changes. This has led to increased scrutiny of Salesforce's strategy and operations, calls for cost-cutting measures, and a greater focus on shareholder value. As a result, company founder and former CEO, Marc Benioff, returned to running the company in November. He has a strong track record of driving growth at Salesforce, and investors have welcomed his return to the helm. The company is navigating these challenges while focusing on its long-term growth initiatives. In recent years, the company has been steadily expanding its offering of cloud-based software products. This resulted in earnings growth above sales growth in the past and we expect this trend to continue.

We also faced challenges in Q1 2023. JD.com and Antero Resources were two significant detractors. JD.com, the Chinese e-commerce giant, has been facing increased regulatory scrutiny, negatively impacting its stock price. The company's growth rate has also slowed, resulting in lower investor confidence. As for Antero Resources, the company was hit hard by the recent slump in natural gas prices, which negatively impacted revenue and earnings. The energy sector faced headwinds in Q1 2023, with several factors contributing to the underperformance of energy holdings. Concerns about rising inflation and interest rates weighed on investor sentiment toward energy stocks. The uncertainty surrounding the future of the fossil fuel industry and increasing concerns about climate change may have also contributed to the underperformance of energy holdings.

Portfolio Activity:
During Q1 2023, we made several trades. We added a new position in Daifuku, a Japanese material handling systems company, to increase our exposure to the industrial sector. Daifuku has a solid balance sheet and has been performing well despite supply chain disruptions affecting some of its peers. We believe it has an above average growth trajectory aided by the secular tailwinds of ongoing factory automation. We also reduced our position in Broadcom. We believe the stock reached its fair value and better investment opportunities may be available. Additionally, we scaled down our stakes in Lowe's and United Rentals due to concerns regarding the outlook for residential and commercial construction activity, including remodeling activity. Lowe's is primarily exposed to household home improvement spending, while United Rentals is mainly exposed to commercial investment spending. Overall, we remain vigilant in monitoring market conditions and making informed investment decisions.