SEABRIDGE
INVESTMENT ADVISORS, LLC

International Strategy Q1 2022

Portfolio Manager: Dave Descalzi
Investment Style: International Equities

The International strategy seeks investment in companies that are domiciled outside the U.S. or U.S.-based companies with substantial international operations. It is a broad market, style agnostic strategy that includes companies across the market cap spectrum with investments in value, growth, and growth-at-a-reasonable price companies.

Outlook and Positioning:

We are entering into a period of transition in world affairs. The Federal Reserve and other central banks must confront the unwelcome development of persistently high inflation and begin the withdrawal of the unprecedented monetary stimulus deployed to avert a pandemic-induced downturn. At the same time, international alliances and commercial relationships are being rethought because of Russia's invasion of Ukraine. These developments complicate the navigation of the international investment landscape.

Russia's invasion also has significant implications for the commodities markets, specifically on the supply of oil and gas, wheat, corn, sunflower oil, and specialty metals. More inflation should be expected for these basic inputs. The high cost of energy needed to meet European demand is particularly worrisome to us and makes us cautious about European investment generally. On the other hand, defense budgets are ramping up on the continent, encouraging us to prospect in this sector.

As for Asia, our outlook is dominated by China's evolution as a global superpower counterweight to that of the U.S. We have long been less interested in China's investments largely because of the government's practice of incorporating its social and economic priorities into the strategic objectives of the private sector. And yet, China holds the key to the investment outlook in the region even if we view with skepticism, China's investment per se. Its size, geopolitical influence, and growth potential are simply too big to ignore and affect the growth profile and investment landscape of the entire region. China is dealing with significant issues. Residential property has been overbuilt, and China needs to work through the excesses. As of the end of the quarter, Shanghai was in lockdown, directly affecting 25 million people due to a "local" outbreak of Covid. Finally, the quarter closed on a sour note with China's pledge of support for Russia despite that country's horrific invasion of Ukraine.

The quarter's dour China-related news flow further encourages us to maintain our reluctance for direct investment in Chinese companies. Our "China" exposure can be achieved in other ways. Taiwan continues to be favored because it is the job shop in technology hardware and in areas where we see strong secular growth such as data centers, 5G, the metaverse, artificial intelligence, the internet of things, factory automation, e-commerce, and streaming video. Southeast Asia is also a viable way to access the region's strong growth potential without taking untoward China risk.

Contributors and Detractors:

While the International Strategy experienced a solid 2021 regarding both relative and absolute performance and generally lower volatility, the first quarter of 2022 has been a more challenging environment for the portfolios. With the unthinkable Russian invasion of Ukraine, as you would expect, Europe has been the weakest component of the MSCI AC World ex U.S. Index. As we touched on in our firm-wide letter, the economic impact seems trivial in relation to the human suffering that has occurred, but our underweight position in Europe has been a positive. Our overweight position in real estate provided some positive performance from a relative standpoint. Stocks like Suntec REIT, Ascott Residence Trust, and Amata from Singapore and Thailand turned in good quarters. Underweight positions in energy, overweight industrials, and some one-off stocks outweighed these positives though. Holdings such as Omron, Stanley Black & Decker, and Techtronic in the industrial sector were among the largest detractors during the period. The lack of energy stocks in the portfolio was also a negative given the fact that energy, after many years of lagging broad global benchmarks, has been by far the best performing sector over the last year.

Portfolio Activity:

Although activity was fairly muted during the quarter, we were more active on the buy-side. We added a new security to the portfolios with the iShares South Korea ETF. We like the fundamentals of the country and without the ability to custody locally traded securities, this allows us to gain some broad exposure. Other small additions such as CK Hutchinson, Fairwood, Johnson Electric, CP All, and iFast led to a lower cash level compared to the start of the quarter. We eliminated a small non-core position, Kyndryl. This position came to be held after IBM spun off its legacy consulting business tied to advising on the design and operation of mainframe IT ecosystems. We believe it is facing secular decline which led to exiting the holding.