SEABRIDGE
INVESTMENT ADVISORS, LLC

Longview Strategy Q1 2023

Portfolio Manager: Adrian Morffi

Investment Style: Global Equities

The Longview Strategy is a concentrated global, long-only equity portfolio with a target of approximately 25 positions. 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, we know we want to own the stock; the price will signal the right entry point. Valuation determines when we make investments, 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 Longview. Spotify's recovery was aided by the CEO's open letter published in January. It marked a turning point for the company by prioritizing 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 may have 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 continued to increase our technology exposure by initiating a new position in Taiwan Semi, a Taiwanese semiconductor manufacturing company. The investment offers us exposure to a franchise asset. We believe the company is the world's most advanced manufacturing company with its leading production capability for fabricating semi chips. At 14x earnings (ntm), we believe the company is valued at a discount to market multiples for an above-average quality business. The company benefits from a near monopoly position, reinforcing a wide competitive advantage of the company's market position. Additionally, we reduced by half one of our top holdings as of year-end - United Rentals. The company offers commercial equipment rental services to customers engaged in manufacturing, construction, and commodity industries. The business can be described as capital-intensive and hyper-cyclical. With revenues highly sensitive to changes in economic activity, the shares seemed overvalued at the time of our sale and disconnected from fundamentals. The shares were valued on peak valuation multiples at a time of record levels of company sales, profits, and margin profitability. The shares have declined sharply since our February activity, and we are actively considering the prospects of reinvestment.

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