SEABRIDGE
INVESTMENT ADVISORS, LLC

Longview Q3 2022

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:
We have entered a bear market and expect the market volatility to continue. The fundamental issue is the rapid rise in both short-term and long-term rates. The 3-month T-bill effectively began the year paying a 0% interest rate and currently yields more than 3.35%, the highest level since 2008. Long-term rates have not fared much better and have driven the spike in mortgage rates. More importantly, we believe the shift in expectations of rates reflects the market's admission of the prospects of a higher, long-lasting rate cycle.

In the last twelve months, the Federal Reserve has demonstrated a remarkably poor ability to establish credible interest rate expectations. For example, the Fed forecasted the YE 2022 rate would be just 0.9% as of December. As of September, the U.S. central bank believes we will end the year at 4.1%. The Fed's priority is lowering the inflation rate from its 40-year high, but the bank has not confidently conveyed how and by what time this will be accomplished. Complicating the ongoing task of recalibrating policy is the Fed's massive balance sheet. The bank has become a seller of financial assets rather than a buyer, a position it has not been in for 13 years. It is no wonder the markets view with skepticism the Fed's ability to achieve a soft landing for an economy challenged by persistently high inflation.

We believe financial valuations are relative, and investment returns are only as appealing as the next best alternative. As a result, the equity markets may struggle to find footing in the near term as higher yields have made bonds more attractive, especially in an uncertain economic environment.

Contributors and Detractors:
The most significant contributors to performance were our energy holdings. These include an oil services company called Expro and Texas oil shale producer Diamondback Energy. The strength in commodities has been a boon. We maintain the view prices for oil are likely to average >$80 over the next five years—the marginal cost of production on the global cost curve. While moderating global growth will likely impact the demand for commodities such as oil, we believe it will not be enough to offset the supply shock from 8 years of underinvestment. The industry was dead for much of the period since 2014 as low prices produced billions in losses. The adage will likely again prove true – "low prices, cure low prices."

The most significant performance detractors were concentrated within media services. Our position in charter cable, through our holding in Liberty Broadband, managed to erase gains over the past three years in a single quarter. Comcast is another position that has proven vulnerable, albeit it has performed better. While we believe the business quality of broadband companies is well above average, we concede to the debt risks. We believe leveraged assets remain the most vulnerable in this environment due to the rising cost of capital. Plus, the increasing competitiveness of wireless companies within residential broadband services only further exasperates the debt issue. The risks no longer justify having an overweight position in these industries. In October, we eliminated our position in Liberty Broadband following many years of ownership. We managed to hedge our exposure to an extent through our recent investment in T-Mobile. It has proven to be a resilient company in these challenging market conditions.

Portfolio Activity:
We were left concerned by recent developments and the market's price action. Persistent levels of uncertainty may cause excessive volatility and tend to destabilize markets. Risk premiums can spike overnight, and significant funding markets can become unreliable. Since June 30th, new issuances of junk bonds and IPOs have been effectively closed. This backdrop encourages us to sell more than we invested in the third quarter. We continued to reduce our value-oriented exposures on relative strength. We reduced defensive positions and inflation beneficiaries - Dollar Tree, Cal-Maine, and Post Holdings – near all-time high prices. On investments, we purchased more Netflix stock following the last earnings report. We found validation of the thesis shared in the prior quarter's commentary, so we doubled our positions.