SeaBridge Core Global Strategy

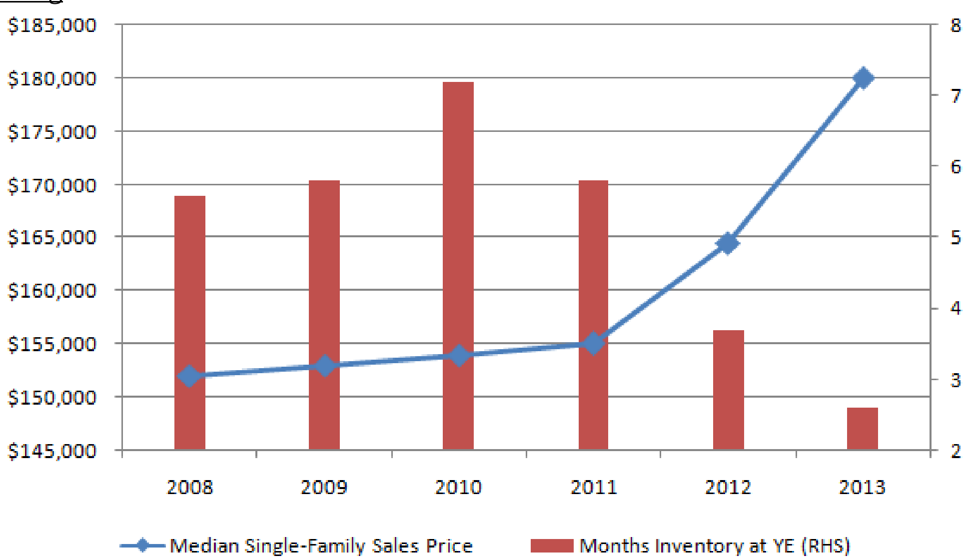
May 2014 Commentary

At the forefront of the American shale boom is the state of Texas, with oil production more than doubling over the past five years. The Wolfcamp and Eagle Ford shale formations are proving to be remarkable assets for both Texas and the United States as their production capacity continues to surpass analyst estimates. Pioneer Natural Resources, a domestic E&P company, believes the Wolfcamp formation could be the second largest oil field ever discovered, second only to the Ghawar field in Saudi Arabia. This is due to multiple oil rich shale layers that are thousands of feet thick. The company estimates that the field could hold 75 billion barrels of recoverable oil. For reference, in 2007, the U.S. Geological Survey estimated the entire Permian basin, which includes the Wolfcamp formation, contained just 1.3 billion barrels of recoverable oil.

Houston, Texas is at the crossroads of the domestic shale boom with more than half of all jobs in energy-related fields. This has clearly contributed to the area's above average economic growth since the end of the recession. According to IHS, a global economics consultancy, the Houston economy grew 3.1% in 2013 versus the national US growth rate of 1.9%. Houston also enjoys a below average unemployment rate and median income levels that are higher than the national average. Lastly, housing remains more affordable than most other urban areas.

In the local real estate market, this confluence of factors has contributed to a strong recovery in both the commercial and residential sectors. On the commercial side, rents are increasing across the board as vacancy rates hover near historic lows. In 2013, rents for retail space increased 13% while vacancy rates hit their lowest level since 2005. Another example is rents for Class A office space, which increased 8% while vacancy rates reached their lowest level since 2007. On the residential side, homebuilders have struggled to meet demand as evidenced by rising home prices and limited new home supply. In Q4 2013, inventory levels dropped to their lowest point on record when expressed in terms of months of sales.

<u>Houston Housing</u>

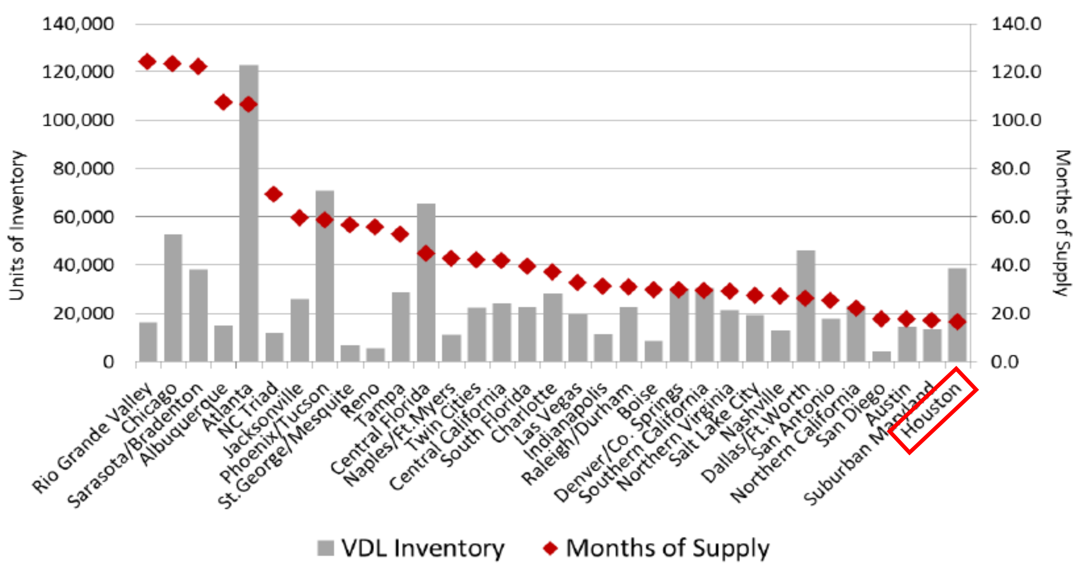


Source: Houston Association of Realtors

This should all bode well for The Howard Hughes Corporation (HHC) in our opinion. HHC is a residential and commercial real estate developer and generally the largest holding in Core Global Equity portfolios. The company has large land holdings in the Houston metro area. HHC's development activity is confined to two Master Planned Communities (MPCs), The Woodlands and Bridgeland. These two developments encompass more than 39,000 acres that eventually could be home to more than 190,000 people. The company focuses on developing residential lots, which are then sold to homebuilders, and fully developing centrally located commercial land into mixed-use properties. The company has a deep inventory of residential and commercially entitled land that could generate attractive cash flows and margins for years into the future.

According to Metrostudy, a leading provider of primary residential market information, the Houston metro area has the tightest inventory in the country for vacant developed lots. Vacant developed lots represent the supply of home-sites available to homebuilders for immediate home construction. Given the lack of available lot supply, HHC was able to raise residential finished lot prices 53% and 38% in The Woodlands and Bridgeland MPCs, respectively, during 2013. Houston area median home prices increased just 9.4% over the same period. This is indicative of the pricing power HHC retains in the lot-constrained market as homebuilders race to satisfy demand.

NATIONAL HOUSING MARKET
Vacant Developed Lot Inventory & Months of Supply by Market



Source: Metrostudy

The Howard Hughes Company is also capitalizing on the recovering commercial real estate sector as it aims to deliver more than 1,000,000 square feet of office and retail space by 2016. These Class A properties, located in the "Town Center" area of The Woodlands MPC, represent the company's strategic initiative to focus on the internal development of its core acreage in order to maximize value for the company.

We believe HHC represents a significant investment opportunity if the domestic real estate recovery firms and the company is able to deliver inventory into strengthening markets across the United States. The company's core projects are all located in what we believe to be attractive markets. In addition to the Texas properties discussed above, Howard Hughes is developing projects in New York City, Las Vegas, and Hawaii. The HHC Management team also continues to add shareholder value by identifying high return opportunities. For example, in 2011, the company bought the remaining 47.5% interest in The

Woodlands MPC it did not already own from its partner, Morgan Stanley Real Estate Investment Group, valuing the development's total equity at $247,000,000. At the time, we viewed the transaction as opportunistic given the distressed nature of the seller due to increasing banking regulations and mounting losses in its other private equity investments. In a recent shareholder letter, HHC management estimated the total equity value of The Woodlands MPC at $2,200,000,000, an increase of more than 8.5 times the 2011 transaction value. We believe the company's real estate portfolio represents a cornucopia of assets that is not fully appreciated by the marketplace. We are pleased with the stock performance over the past 2 years but believe there is still considerable opportunity remaining given the company's unique asset position and stage of the economic cycle.

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April 28, 2014

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There are differences among portfolios managed by SeaBridge in the Core Global Equity strategy based on client-specific factors. Not all portfolios hold the same securities. HHC is not the largest holding in some Core Global Equity portfolios. Other securities in the portfolio have performed differently from HHC in the past.

SeaBridge also manages portfolios in other styles. These portfolios differ from the Core Global Equity strategy portfolios.

This is for information only and should not be considered a solicitation or offering of any specific investment products or services.

This is not a recommendation to buy HHC or any other security*. SeaBridge may buy or sell HHC at any time in the future depending on individual client circumstances or changes in SeaBridge's conclusions about the outlook.*