SEABRIDGE
INVESTMENT ADVISORS, LLC

Yield Growth Strategy Q1 2022

Portfolio Manager: Howard Chin, CFA
Investment Style: Income Growth

The Yield Growth strategy seeks to generate both income and growth with volatility lower than that of the equity markets by utilizing a diverse set of asset classes (Equities, REITs, Fixed Income, Closed-End Bond Funds, etc.).

Outlook and Positioning:

We expected a challenging year for risk assets as we entered 2022. Higher than expected inflation, the Federal Reserve's aggressive response to higher prices, and economic complexities associated with the Russia/Ukraine war reinforced our cautious view and weighed on equity returns in the first quarter. A rally in equities in the last three weeks of the quarter helped the indices recover a large portion of the losses. Risk assets related to commodities did well. Given Ukraine and Russia's market share in energy, metals, and agriculture, this war should exacerbate the inflationary pressures already in place from pandemic driven disruptions. Fixed income had a terrible quarter amid high inflation and the start of aggressive rate increases by the Federal Reserve. The Bloomberg Aggregate Bond Index, a proxy for U.S. investment-grade bonds, was down 5.9% in the quarter. The 30-year mortgage ended the quarter at just under 5%, up substantially from 3.3% at the beginning of the year.

We have been moving away from fixed income and more toward equities in these portfolios. We remain moderately cautious on government bond yields and credit spreads given the inflation headwind but acknowledge that the front end of the yield curve is looking more attractive. We were active in the quarter looking to add more diversification and resilience to the portfolios. Considering the geopolitical concerns and commodities supply/demand imbalances, we added exposure to natural resources, gold and silver, and a defense company. Although higher rates should continue to serve as a headwind on both bond and equity market returns, we continue to see opportunities in the market. Indiscriminate selling in the near term has created appealing entry points for high quality and/or high growth potential equities. Longer-term, we see a regime shift to a slower growth and higher inflation environment that may warrant greater allocations to inflation beneficiaries, companies with pricing power, and more value-oriented ideas.

Contributors and Detractors:

Our housing-related stocks, Lowe's, Home Depot, and Masco, detracted from performance. Home improvement spending soared during the pandemic but concerns from higher mortgage rates and consumer-led slowdown dampened sentiment. Stocks that contributed to performance were Berkshire Hathaway, Becton Dickinson, and Amgen. Berkshire's portfolio of high-quality assets and its pristine balance sheet are a draw for investors looking for a place to take cover in this volatile market. We think this is an excellent time for Warren Buffet to use the cash in Berkshire's balance sheet to find great companies selling at a discount. In our opinion, Becton and Amgen are two solid defensive healthcare companies that offer a healthy dividend yield as well as dividend growth prospects in an environment starving for growing income streams.

Portfolio Activity:

We initiated positions in five new companies/ETFs this quarter — Wheaton Precious Metals, FlexShares Morningstar Global Upstream Natural Resources ETF (GUNR), Raytheon, Safran, and ICON. Wheaton Precious Metals is a metal streaming company with a focus on gold and silver. The streaming business model provides exposure to commodities without the risks of operating a mine and offers diversification across a portfolio of mining assets. GUNR provides exposure to natural resources companies which are one of the primary beneficiaries of the increase in prices of various commodities ranging from energy to copper to fertilizers. We expect Raytheon to benefit from a new era of defense spending across Europe and the U.S. Safran, in a joint venture with General Electric, is the world's leading manufacturer of jet engines for narrow body aircrafts. They will likely see solid earnings growth as the new engine called the LEAP is rolled out. ICON is the leading consolidator in the clinical research outsourcing space and should benefit from the growth outlook in drug research & development. In fixed income, we added to VGSH, a short-duration treasury fund, to capture yield on the front end of the curve.

We exited positions in Coca-Cola European Partners (CCEP), Alliance Bernstein High Income Fund (AWF), Gilead, Kennedy Wilson, Axalta, and Granite REIT. AWF was sold on concerns of widening credit spreads in the international high yield market. We decided to move out of CCEP because we expect margins to disappoint on prospects of higher commodity costs. We exited Gilead, Kennedy Wilson, Axalta, and Granite REIT to upgrade to more attractive sustainable growing names. We also trimmed our position in Lowe's to lower our exposure to home improvement spending.