October 19, 2021

Q3 2021 INVESTOR UPDATE

When Seabird Investment Partners opened its doors five years ago, our goal was to create a firm that would deliver best in class investment strategies for the benefit of our client/partners. We knew then that being best in class doesn't always mean delivering the highest possible return – sometimes it's more about avoiding unnecessary risks that are often unrecognized but nonetheless present. We also knew that we'd be traveling a path far different than our peers in the business – something we don't mind at all – and that at times our performance might deviate significantly from the mainstream. And we knew we'd make mistakes, but always endeavor to learn from them and keep a dogged focus on the long game. What we didn't fully appreciate however is probably what impacts us most today. But before we circle back to that point let's take a brief look back on the past 5 years, where we stand today, and our outlook for the future.

Five-years ago we were a two-man shop consisting of just a single portfolio manager and one associate filling a dual trading/operations role. At that time, we were running 4 distinct investment strategies and doing it all out of sub-leased office space. Our focus on being a "best in class" asset manager left us little time for marketing, but the loyalty of our client/partners, the referrals you've generated, and the strength of our performance has nonetheless resulted in significant growth. This growth in turn has allowed us to reinvest in our core investment capabilities and create redundancies for a truly resilient operation. The benefits have been clear:

- Shortly after our launch Joe came on and added significant horsepower to our research capabilities. He now takes a leading role in the management of the Equity+ strategy and a supporting role as co-manager of the Income+ strategy.
- Barbie joined us next as an Operations Associate, freeing up our time to do what's most important for you – maximizing investment returns. Today she is formally our Chief Compliance Officer, and informally our CEO—Chief Everything Officer.
- In 2020 we made another significant addition, bringing on an accomplished municipal bond professional to oversee trading and to add even more heft to our analytic capabilities. Stefan has shined in this role and is now co-managing our municipal bond portfolios. We're flattered to have attracted someone with his impressive skillset and experience.

Today we operate out of our own office space (in what is generously labeled La Jolla) and our four-person team is rightly sized for our current operations. The redundancy across the management of each strategy constitutes an optimal structure for efficient management– less would want for redundancy and more would risk a "management by committee" culture which we believe to be the single best recipe for paralysis and mediocrity.

As we move into the future, we see ourselves becoming only a modestly larger firm in terms of personnel – but with the capacity to manage significantly larger sums of money. Our goal is to continue to prioritize excellence in investing over institutional growth. And to be certain, we're most appreciative of the role you have played in our success so far. It's cliché but true— our client/partners are our greatest asset. Having a well-informed client base willing to play the long game has been instrumental in our ability to create and compound wealth. To say the least, we're proud of the company we keep. Thank you.

In fact, nothing makes us happier than your success. Below, you will find the 5-year *annualized* returns of our 3 "plus" strategies along with the performance of relevant benchmarks:

Seabird Equity +:	17.8%
Seabird Income+:	10.3%
Seabird Muni+:	9.4%
S&P 500:	16.9%
Bloomberg Agg Bond:	2.9%
S&P Muni Bond:	3.2%

Of course, we had no intention of beating those benchmarks 5 years ago. How could we, considering we had no idea what those benchmark returns might be?

As it pertains to equities, what we *did* know at our inception in September of 2016 was that the preceding 50 years had delivered an annualized return of 10% in the S&P 500 Index (assuming the reinvestment of all dividends paid). In our estimation then (and now), especially in light of historically low interest rates, a return which materially exceeded that of the past 50 years would likely be an exceptional result in the future. So, much like a marathoner who ignores the pacesetter of a race, we set our own benchmark and underwrote our investments accordingly. And while it's nice to have beaten a difficult benchmark, we're particularly pleased that the assets we owned have performed up to or beyond our expectations.

Similarly, we had no interest in beating a fixed income benchmark that might provide no functional return for our investors. Rather, our goal was to focus on the creation of tangible income with actual purchasing power, and to produce appreciation only as a secondary (but certainly desirable) goal. Over the past 5 years we've outperformed our benchmarks on *income alone*; the appreciation has been icing on the cake. We have always endeavored to under-promise and over-deliver, but it would not be overstating the case to point out that our past fixed income performance has been amongst the very best to be found. And all that was required was a healthy dose of common sense and the avoidance of institutional imperatives such as the rigidity of a "style box".

Today, if we were to re-underwrite our Equity+ portfolio – and we do so on an ongoing basis – we are of the belief that it remains positioned to achieve the double digit returns we consistently target. Our underwritten returns of course, have nothing to do with a future projection of the market but are simply our estimated present value of future cash flows produced by the entities in which we enjoy ownership, divided by current market prices. (Sounds simple right?)

It should also be noted that, in equities, despite our adherence to a proven discipline, there has certainly been some evolution in our process. Today we are much less focused on statistically cheap stocks and far prefer to own great *businesses* that are competitively differentiated and attractively priced. This entrepreneurial approach has clearly paid off as evidenced by our returns relative to the more traditional cadre of so-called "value investors." Less apparent however, is that the increased focus on resilient cash flows and growing businesses with plentiful opportunities to reinvest capital, empowers the increased effect of compounded returns in our overall portfolios.

In fixed income, we remain positioned to produce an attractive level of distributable income with current yields approaching 5% in both the Income+ and Muni+ strategies. (We expect these current yield numbers to *increase* upon the consummation of the Puerto Rico settlements later this year or early next.) For reference, both yields are more than 300 basis points in excess of the yield on the 10-year US Treasury at the end of Q3, while our portfolios maintain a significantly shorter adjusted duration (i.e., less interest rate risk).

Which brings us to the *future*. We hear the same question often – (and frequently from investment professionals!): "What do you think the market will do next year?" While this seems an innocuous question, in our view, it's extremely revealing of the two cognitive flaws which prevent investors from unlocking the full power of equity investment.

The first flaw is the idea of a market index as a *useful* topic of discussion as it pertains to a decision-making process. We make investments based on the earnings power and asset values of individual businesses. Full stop. When securities which meet our underwriting standards are available, we buy more. When they are not, we step back. We make no differentiation between buying a publicly traded company and a private one. We consider the vagaries of the market to be a deficiency upon which we intend to profit rather than a liability to which we are tied.

The second flaw is the presumption of foresight. In hindsight, all winners appear to have foresight. The truth is, nobody does. What is clearly apparent, however, is that investing even in a broad swath of American businesses has had a built-in mechanism for appreciation, a bias in favor of investors. The 10% historical return mentioned earlier has neither been ephemeral nor random. It has been primarily composed of two concrete parts: corporate earnings, and inflation in the value of the business assets themselves. This bias is so strongly in favor of the resolute equity investor, that even those whose precognition was *exactly wrong*, purchasing the Index basket of stocks on the month end dates preceding the last 3 great market selloffs, Black Monday, the Dot.Com bust, and the Financial Meltdown, would have since garnered compounded returns of 10.3%, 7.1%, and 9.9%, (vs 6.2%. 4.73%, and 4.1% in the Bloomberg bond index). And again, those are the results for someone whose timing was *exactly* wrong. To put a finer point on it, what the illusion of pre-cognition engenders is the willingness to bet against a strongly stacked set of odds. Often this bet is made by simply not betting at all, but staying on the sidelines simply allows inflation to erode the buying power of an individual's assets and is in itself a losing bet. Most insidiously, postponing investment acts to shorten the *time* available for compounding to work its magic.

And while *timing* is not your friend *time* is. The following table shows how long it takes to turn $1 million into $100 million in a variety of return scenarios:

Return	Years to 100X
8%	59.9 years
10%	48.5 years
12%	40.7 years
14%	35.1 years
16%	31.1 years

Compounding allows for parabolic returns, and assets need time to compound. We like to say that "the best time to invest was yesterday" and twenty years from now we will likely be saying the same thing. The commutative property of multiplication establishes that your result will not vary if one of your inevitable down years is next year or 20 years from now; your result will be identical. Getting invested as early as possible, maximizing your allocation to the strategy with the best growth potential, minimizing frictional costs such as taxes, and doing all 3 unblinkingly in the face of "market" chatter are the recipe for a lollapalooza result. In case you glossed over it too quickly, we want to emphasize again that the above chart represents the path to *100 times* your original investment.

We mentioned at the top that we are maybe most surprised by what we've come to learn and continues to crystallize for us today (and we're sure you recognize by now that subtlety is not our forte). That is, while fixed income has an important role for investors, outside of that specific role, being a "best in class" fixed income investor is often inferior to simply being a solid, disciplined equity investor. And that although we've given fixed income investing the appearance of a wealth building exercise, fixed income can never fully capture the parabolic effect of compounding unique to equity investment.

Finally, at our 5-year anniversary we'd like to reemphasize our dedication to achieving the 5 qualities elucidated by Peter Kauffman and Charlie Munger which in their opinion and ours make an investment manager the best possible resource for its client partners:

- Total integrity
- Actual deep, deep fluency in whatever you say you are going to do on behalf of the client
- A fee structure that's actually fair in both directions
- An uncrowded investment space
- A long runway

While it would be presumptuous for us to grade ourselves on Kaufman's "five aces", we hope you know that these are the attributes to which we have strived over the past 5 years and will remain our focus for the many years to come.

-Arch Peregoff
-Joseph Di Scala