January 21, 2025

Q1 2025 INVESTOR UPDATE

"A majority of life's errors are caused by forgetting what one is really trying to do."
-Charlie Munger

Seabird's focus on a purposeful investment process produced another outstanding year of results for our investors in 2024:

Muni+	**8.5%**
Income+	**13.7%**
Equity+	**26.9%**

Joe and I agree there are only two reasonable objectives in an investment operation: a) the production of a consistent stream of required income or b) to accumulate wealth – in our case primarily through the long-term ownership of attractive businesses. We see *inversion* as a powerful process, working backward through each business decision from a clearly defined mandate.

You'd be forgiven if you think we're stating the obvious. Surely all investors share a similar set of goals and focus, and such simplicity is unlikely to create an edge in long term outperformance. Over time however, we've noticed that investors frequently do take their "eye off the ball".

One common distraction is market volatility, and an obsession with avoiding it. Often investors choose to do so through diversification and while at times the result of over diversifying is merely benign mediocrity, overly diversified *fixed income portfolios* in particular have produced extremely sub-par results over the past decade-one that has neither delivered an attractive stream of income, nor protected capital from the decay of inflation.

Joe and I think of volatility quite a bit differently than what's taught in academic circles where diversification has been hammered into students as a rote response to an imaginary mandate. We simply ask ourselves two questions: are we confident that the purchase of an investment is made at a price likely to fulfill our investment objective *over the full holding period* of the investment, and would we be eager to accumulate aggressively in the face of a subsequent market decline. In that light we expect volatility to be *accretive* to returns over time.

In short, we see our investment process as possessing three key attributes which –

somewhat surprisingly – set us apart from the greater investment community: We pursue practical real-world goals, we leverage our knowledge base through a focus on our best investments, and we have the mental fortitude to avoid distractions.

EQUITIES

We're pleased to report a net gain of 26.9% in Seabird's Value Equity strategy for the year ending December 31, 2024. Importantly, since inception, the portfolio produced 17.0% annualized net returns. To put this in perspective, $1 million invested in September 2016 is now worth $3.7 million.

Over the next decade, we aspire to beat an internal bogey of double-digit returns, though it won't be easy. We aren't immune to the challenges of today's highly valued market, but we have several things going for us: (1) the flexibility and expertise to pursue opportunities across a variety of markets; (2) the ability to act quickly when prices permit; and (3) ample cash to fund future purchases and coincidentally cushion any short-term decline within the portfolio. Not many investment managers can claim the same.

There was little portfolio activity of note during the quarter other than small "trims" to a handful of existing holdings. While it is our preference to limit portfolio turnover and its associated costs, it was prudent to act as the shares appreciated much faster than their underlying earnings power. This value discipline is the cornerstone of our process: we buy excess returns when they are available and hold cash when they dry up.

It's evident to us that we are in the midst of a market characterized by extremes in sentiment. Mega-and-Large capitalization stocks in the U.S. enjoyed a decade-plus of stellar performance on the back of an enthusiastic narrative and a handful of structural tailwinds. Small-and Mid-Capitalization (SMID) stocks, on the other hand, have dramatically underperformed. Not only have they been starved of fresh capital, but they've been sold off with proceeds further propelling the giants already dominating the market.

Accordingly, it's reasonable that SMID cap stocks are now fertile ground for us to hunt. Assets are potentially more undervalued in this corner of the market and there is considerably less competition. Fortunately, we have expertise here, and in fact, we are already evaluating a range of compelling opportunities. We will allocate capital aggressively as they materialize, and we hope to have an update in the coming quarters.

FIXED INCOME

Despite our focus on merely producing an attractive stream of dependable income, both of Seabird's fixed income strategies performed extremely well in 2024. Our Performing Credit strategy returned over 13% to our clients in 2024 and is now averaging over 8% for the last eight plus years vs. a sub one percent return from the Bloomberg Index.

Similarly, Muni+ delivered an 8.5% return in 2024 and a net annualized return which now exceeds 6% since its inception, outrunning the index by over 400 basis points annually.

Our great advantage lies in our position in the "sweet spot" of fixed income investing – neither constrained by a mandate to over-diversify, nor constricted by an arbitrarily tight style box. We enjoy not only the latitude to use all the tools at our disposal, but also to use the one most fitting for the job at any given time.

Heading into 2025, we find ourselves well positioned to deliver both income and attractive overall returns. We think the tables below are the most illustrative for investors, both in terms of distributable yield and potential for capital appreciation.

Income+ as of 12/31/24:

Cash Yield:	5.24%
Avg. maturity/float:	2.3 years
% Discount to par:	5%

(US Treasury 10 Year Yield: 4.57%)

Muni+ as of 12/31/24:

Cash Yield:	4.48%
Avg. maturity/float:	4.3 years
Discount to par:	4.2%

(*Bloomberg AAA 5yr Muni Yield: 2.9%)*

-Arch Peregoff
-Joseph Di Scala