Bridgeport Asset Management Inc.
Tel: 416-849-2225 x 103
info@bridgeportasset.com
www.bridgeportasset.com

BRIDGEPORT
ASSET MANAGEMENT INC.

Q4 2021
Investment Commentary

2021 was a good year for investing, in contrast to the real-world challenges of the last 12 months. Many stock market indices increased well over 20% — a result few would have predicted given the devastating consequences of COVID on many segments of the global economy.

Inflation remains the chief investor concern as we (hopefully) gradually return to a more normal life. US and Canadian inflation are currently running at 7.0% and 4.8%, respectively, as a result of tight labour market conditions and global supply chain challenges. The last time inflation in Canada reached similar levels was 30 years ago.

Our best guess is that inflation rates will decline as the impact of COVID recedes, however it seems unlikely we will return to pre-pandemic inflation levels in the 2% range any time soon. This means that central banks will be increasing rates and fixed income investors will demand commensurately higher returns, pushing up bond yields.

We started to see this effect with bond yields in the latter half of 2021 and in January of this year. The five-year Canadian government bond yield was 0.4% at the start of 2021 and then rose to 1.3% to end the year. This relatively modest increase of 0.9% made government and investment grade corporate bonds one of the few losing investment categories of 2021, despite being viewed as traditional safe havens. Investors in the Canadian aggregate government and corporate bond indices lost 3.2% and 1.4%, respectively. And so far in 2022, the indices have suffered further losses of about 3% as the five-year Canadian government bond yield has now increased to 1.7%.

We are of the view that investment grade corporate and government bonds will continue to be a poor place to allocate long-term savings in the coming years as even modest increases in interest rates will lead to declines in bond prices. Higher yielding fixed income investments (like those found in Bridgeport's High Income Fund) should perform better as they typically either cushion the impact of rising interest rates by offering higher spreads over government bond yields (in the case of high yield and convertible bonds) or are structured to pay variable-rate interest, enabling investors to participate as rates rise (in the case of senior loans and certain preferred shares).

Traditionally, inflation and rising interest rates have also been viewed as negatives for the stock market. However, studies of recent periods of rising rates don't confirm this commonly held view. For example, over the last 30 years, there have been six periods of rising rates (as measured by the ten-year US treasury bond). The S&P500 actually rose during five of those periods (with an average cumulative increase of 23%), while there was only a modest loss in the other period.

Bridgeport Asset Management Inc.
Tel: 416-849-2225 x 103
info@bridgeportasset.com
www.bridgeportasset.com

Q4 2021
Investment Commentary

A deeper look into the numbers suggests that the stock market usually increases during periods of rising rates because corporate earnings growth is strong, offering support to stock prices. It is true, however, that over the longer-term central banks have sometimes overshot in raising rates which has impaired business expansion and led to stock market declines. So, we think the impact of rising rates on stocks is somewhat mixed, although not necessarily as negative as some believe.

The stock market benefited greatly in 2021 from earnings growth. The rise in stock prices came almost exclusively from an increase in corporate profitability as the S&P500 was valued at about the same multiple of earnings at the end of 2021 as compared to 2020. We view this as a positive signal as stock market returns were driven by earnings growth rather than an expansion in the price-to-earnings multiple.

Bridgeport's three equity funds earned solid returns between 15% and 26% in 2021. Performance in Bridgeport's Small & Mid Cap Equity Fund was driven by significant gains in ATS Automation (+125% total return in 2021), Trisura Group (+114%), Summit Industrial (+78%), Tricon Residential (+73%), Park Lawn (+50%) and Switch (+75%). We had only a handful of decliners in the fund over the year including Lifeworks (-15%) and IAA (-22%).

In Bridgeport's Canadian Equity Fund, major contributors to returns were Brookfield Asset Management (+48%), Colliers International (+66%), Royal Bank of Canada (+33%) and Granite REIT (+40%). Investments in Quebecor (-10%) and Real Matters (-38%) detracted from the fund's 2021 return.

Significant winners in Bridgeport's U.S. Equity Fund were Autozone (+77%), Alphabet/Google (+65%), Lowe's (+63%), HCA Healthcare (+58%), United Health Care (+45%) and Microsoft (+52%). Positions in Walt Disney (-15%), Nintendo (-25%) and Twitter (-20%) negatively impacted the fund during the year.

Going forward, we are positioning our equity funds to favour companies which are able to take advantage of rising rates and/or successfully pass on price increases to customers to compensate for increasing costs. We will also continue to focus on higher quality businesses that are reasonably valued given their growth prospects.

Bridgeport's High Income Fund also had a good year, generating a 2021 return of over 10%. This was particularly positive given the negative rates of return earned by government and investment grade bond investors mentioned earlier. The fund is broadly diversified with over 60 investments and benefited from its exposure to US and Canadian higher yielding bonds and convertible bonds, preferred shares, senior loans and a 20% allocation to dividend paying stocks.

Bridgeport Asset Management Inc.
Tel: 416-849-2225 x 103
info@bridgeportasset.com
www.bridgeportasset.com

BRIDGEPORT
ASSET MANAGEMENT INC.

Q4 2021
Investment Commentary

Bridgeport's private asset funds continue to play an important role for clients who wish to diversify a portion of their portfolios away from publicly traded stocks and bonds. Both Bridgeport's Alternative Income Fund and Private Equity Opportunities Fund continue to grow in size and in terms of the number of underlying private asset strategies in which they invest. In its first full year of operation, the Private Equity Fund returned over 11%, while the Alternative Income Fund increased approximately 7% in 2021.

Finally, in order to provide Bridgeport clients an opportunity to invest in the entire private asset investment landscape, we are planning to launch a new fund in the first quarter which focuses on private real estate and infrastructure assets. The fund will be structured in the same manner as our other private asset funds and will allocate its capital to a variety of mainstream and niche real asset segments in partnership with large, institutional third-party asset managers. The objective of the fund is to provide investment returns that are relatively uncorrelated with traditional stock and bond markets. We will provide more information on the new fund as we get closer to its launch, but encourage you to reach out in the interim should you have questions.

We wish you all the best in 2022!

Yours truly,

John Fisher