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BRIDGEPORT
ASSET MANAGEMENT INC.

Q1 2020

Investment Commentary

The past six weeks have been truly unprecedented. From the tragic human toll to the adjustments in our day-to-day lives and the impact on the global economy, this pandemic has been unlike anything we have experienced in our lifetimes.

The situation is most unusual in that governments have effectively forced the world economy to largely shut down (something akin to going into a medically induced coma) in order to stop the spread of COVID-19 and buy time for health care systems to cope.

Beginning in late February, capital markets began to absorb the reality that the pandemic was going to have a major impact on global economic activity and, as this reality began to set in, equity markets declined approximately 35% over a five-week period -- the quickest decline ever of that magnitude. A 65% plunge in oil prices as a result of a dispute between Russia and Saudi Arabia over oil production cuts also significantly exacerbated investor fears.

Entering the second quarter, forecasters expect unemployment levels to rise to 20%, while U.S. Gross Domestic Product (a measure of economic activity) is expected to see an annualized decline of as much as 25%. In the coming weeks, we will start to get more clarity from companies about the quantum of lost earnings from the March shutdown, although we think investors will largely look past most of the bad news from the first half of 2020 and focus instead on the details around when and how we are able to return to a more normal life. In that regard, our view is that asset prices will be most affected by the actual duration of the economic shutdown as opposed to the depth of the decline during the quarantine period.

The March drop in equity prices is certainly not surprising given the uncertainty created by the pandemic, but more unexpected was the poor performance of investment grade bonds during the selloff. At one point in late March, the long-term Canadian investment grade bond index had lost approximately 23% of its value over just 9 days, while its yield jumped from 2.8% to 3.7%. This is unusual as investors generally seek safe haven assets like blue chip bonds during crises, not run away from them.

From our perspective, crises always create investment opportunities for those who can think long term and beyond the current situation. Our focus going forward remains on investing in stocks and bond of companies with excellent business models, many of which are now "on sale" at discounted valuations.

In the last few weeks, market volatility has gradually declined and investors are beginning to differentiate between companies that are either immune to or benefitting from COVID-19 and those that are suffering to one extent or another. We own many companies in the first category in our client portfolios which tend to operate businesses which produce essential products and services in industries like consumer products, utilities, food retailing, e-commerce, health care and telecommunications, although in some cases we have been reducing our exposure to these stocks due to valuation concerns.

We believe better opportunities exist today to invest in companies which have a demonstrable track record of growth, have historically produced sustainably high returns on capital, are led by skilled management teams and will be impacted by COVID-19 mostly in the short term. Many of these companies have suffered severe share price declines and, as result, we believe will generate superior investment returns as we emerge from the shutdown.

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We are also evaluating opportunities to invest in companies more severely impacted by the shutdown in industries like leisure and travel, however our focus in these areas will be more cautious and geared toward companies with strong balance sheets that we think can remain viable through the quarantine period and beyond.

In Bridgeport's High Income Fund, we are taking a similar approach and seeing attractive high yielding investments across the credit spectrum including in high yield bonds, preferred shares and senior loans. A lack of liquidity has also created some specific opportunities in these fixed income segments.

Since a low in late March, North American capital markets have rallied considerably. Our experience (and history) would suggest that there will continue to be asset price volatility for the foreseeable future as we all learn more about the duration of the lockdown and the timing of when (and how) everyone is going to return to work.

On a positive note, there are a number of encouraging signs that there is light at the end of the tunnel, including:

- Asian economies, those first impacted by the virus, are actively reopening.
- Daily new infections and deaths have started to peak in some Western hot zones.
- Millions of people globally are working to create solutions to the pandemic.
- Governments and central banks have stepped up with massive fiscal and monetary stimulus to support the economy and inject liquidity into the financial system.

We wish you and your loved ones all the best during these trying times. Stay healthy and safe and please feel free to reach out should you wish to talk.

As always, please feel free to call us should you have any questions.

Yours truly,

John Fisher

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