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BRIDGEPORT
ASSET MANAGEMENT INC.

Q4 2020
Investment Commentary

2020 was certainly a year which taught us to expect the unexpected. This was true for our daily lives as well as in the investing world.

At the beginning of the year, the threat of a pandemic was certainly not high on the list of potential concerns for most investors. Even with murky reports of a virus circulating in China in late January 2020, the S&P500 still managed to rise 5% through mid-February before plunging 34% a month later. In the midst of the spring lockdown, many experts were then calling for a long bear market, not the surge we experienced which brought fresh all-time highs to many stock indices by year-end.

While it will always be tempting to try to predict short term market performance, history would suggest that to do so successfully on a consistent basis is so rare that it is indistinguishable from random luck. For most, attempted market timing has historically been a significant source of underperformance. We are reminded of two anecdotes from client performance studies at one large US asset manager (Fidelity Investments) that emphasize the importance of investing for the long term:

- During Peter Lynch's 13-year tenure (1977-1990) as the lead manager of the firm's Magellan fund which generated an average annual return of 29%, the average investor in Lynch's fund realized a loss due to their own timing decisions.

- In a study of their most successful clients over a long horizon, Fidelity determined that they were those who had either forgotten their accounts or had passed away unnoticed.

We believe investors with a focus on long term outcomes can successfully execute the only form of market timing we have found to consistently add value: rebalancing and investing incremental capital during periods of weakness, based on the view there will be a recovery in time.

The pandemic has also served as a reminder that the stock market and the economy are not necessarily correlated in the short term. This shouldn't be surprising as financial markets are forward-looking whereas economic data is akin to a photograph, reflecting only the situation at a moment in time. Moreover, changes in economic conditions create winners and losers amongst individual companies and industry segments, sometimes in dramatic ways. One need look no further than the pandemic's effect on E-commerce versus restaurant chains. These changes of fortune are sometimes only obvious in hindsight.

It can also be difficult to watch (increasingly) speculative parts of the market double or triple in value over short periods of time and feel a sense of missing out. Despite this, we remain committed to our process of investing in high quality businesses at attractive valuations with an eye on the long-term. This approach has proven to be consistently successful for investors aiming to accumulate wealth over longer horizons as speculative bubbles eventually burst, leading to wealth destruction.

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To this end, we have been quite active in repositioning our public market strategies throughout the year, given COVID-19 created temporary windows of opportunity for some businesses, accelerated growth trajectories for others and caused irreversible damage to an unfortunate few. More specifically, in the fourth quarter, we initiated investments in a number of excellent companies which are well positioned in their respective industries for the foreseeable future and trading at attractive valuations.

Intact Financial was added to the Canadian Equity Fund after announcing the acquisition of the Canadian and UK assets of RSA Insurance, increasing the company's dominance in the Canadian property and casualty insurance market and providing opportunities overseas.

We also added ATS Automation to the Small & Mid Cap Fund prior to their solid second quarter results which have since propelled the shares to levels not seen since 2018. ATS is among the global leaders in the design and development of factory automation systems, principally in the health care sector, and has promising long term growth prospects.

Another example of repositioning in our portfolio has been the addition of Morgan Stanley to our US Equity Fund. The holding has already produced strong short-term returns and we believe the longer-term prospects continue to be bright for this leading banking franchise. U.S. banks have endured a challenging operating environment due to ultra-low interest rates and heavy-handed regulators, resulting in depressed valuations across the sector. Morgan Stanley, however, stands out relative to its peers as it generates almost all of its income from fees charged across its investment banking, private wealth and fund management businesses, as opposed to net interest income from lending.

From an asset allocation perspective, we continue to believe it is of paramount importance that investors diversify across both public and private asset classes. Exposure to private investments can enhance investor returns, while reducing portfolio volatility and drawdowns during periods of extreme market stress. This diversified approach has been used by large institutional investors such as pension funds and endowments for decades now and, in most cases, we believe families and individuals are well served in following a similar strategy.

We have brought this previously inaccessible exposure to our clients through Bridgeport's Alternative Income and Private Equity Opportunities Funds. The Alternative Income Fund has now allocated capital to more than a dozen income generating, private asset strategies including recent investments in a global distressed debt fund that is well positioned to take advantage of dislocations related to COVID, a US firm which provides loans against apartment buildings and a private credit fund focused on loans secured against government tax credits available for the production of films. It is worth noting that the uncorrelated and diversified Alternative Income Fund suffered only a minimal decline in value when stock markets plummeted in early 2020 when news of the pandemic first emerged.

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The Bridgeport Private Equity Opportunities Fund launched late last year and we have already made several investment allocations to strategies across North America and Europe, providing exposure to equity ownership in dozens of private companies. We ultimately expect to allocate the fund's capital to ten or more private equity managers, pursuing a wide variety of strategies across industry, stage of development and geography.

We wish you all the best in the coming year. As always, please feel free to reach out with any questions about your portfolio.

Yours truly,

John Fisher