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BRIDGEPORT
ASSET MANAGEMENT INC.

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Investment Commentary

North American stock markets advanced marginally in the first quarter of 2015. The TSX Composite rose 1.8% during the period, slightly outpacing the S&P 500 which was up only 0.4%.

Although oil prices stabilized somewhat during the quarter, the effects of significant price declines in 2014 continued to reverberate through the global economy in 2015. Companies across the energy sector have cut capital spending plans and laid-off workers, while in Canada the federal and provincial governments (most notably Alberta) are adjusting their budgets to deal with lower tax revenues.

Not everyone is suffering with cheap oil however. Many parts of the domestic economy are benefitting from low oil prices including the manufacturing and transportation sectors where energy is often a key input. For example, one of the holdings in our equity portfolios, Progressive Waste, operates a waste collection business which uses vehicles to collect and transport waste. We have also invested in the convertible bonds of Student Transportation in our high income portfolios. As its name would suggest, the company operates and manages bus programs on behalf of schools and similar organizations.

Both Student Transportation and Progressive Waste are obviously net beneficiaries from a reduction in oil prices since they operate large vehicle fleets which consume fuel. Since the price of oil began its descent in September 2014, quarterly profits at Progressive and Student Transportation's have been buoyed by lower fuel prices.

Canadian companies selling into the US or with US operations have also gained an advantage from the declining value of the Canadian dollar which followed oil prices downward. Our high income portfolio investment in the shares of Canadian-based Richards Packaging has benefited from the increase in the US$ as approximately 55% of Richard's revenue is in US$. Following the rapid rise of the US$ in December 2014, the company's stock has increased by over 18%.

As we have communicated many times in the past, we shy away from investing in commodity-oriented stocks and bonds at Bridgeport for a number of reasons including difficulties in assessing their future profitability. That being said, as value investors, it is hard not to be intrigued by both energy and mining companies today given the depressed levels of many commodity prices.

We are evaluating opportunities in these sectors but do note, for example, that the stocks of many oil companies have not declined as significantly as one might expect given the recent 50%+ plunge in oil (for example, Exxon's shares price has only dropped 12% since September 2014).

On the fixed income side of things, investor obsession with determining when central banks will increase rates continues. It is somewhat ironic that when the daily news suggests the economy is improving (and that rates will rise), it causes markets to swoon and vice versa. Somehow good news is bad (and bad news is good)! From our perspective, it is clear that markets are being supported by cheap money so it has become even more important to focus on the underlying value of businesses when investing.

A notable feature of today's fixed income landscape is that many sovereign bonds (i.e. issued by countries) are priced to yield negative rates of return, meaning investors lose money every day holding the bonds (for example, the benchmark 5 year German bond currently yields -0.1%). This recently prompted the Vice Chairman of Warren Buffet's Berkshire Hathaway to admit he was flabbergasted by the seemingly inexplicable situation. The reality, however, is that there are a number of reasons investors appear to be willing to accept negative rates of return including the fact that (i) holding cash is often impractical for large institutional investors and in some cases banks will charge them to hold cash and (ii) some investors believe deflation may take hold, likely causing bond prices to rise and yields to fall further.

In the current environment, we continue to believe in a balanced approach to investing. We are cautiously monitoring equity markets as valuations creep up and we expect to be replacing a few securities in our portfolios in coming months with more attractively priced opportunities. In our high income portfolios, we remain comfortable with our approach of investing mainly in medium term corporate bonds which are rated a notch or two below investment grade (i.e. BB and B credit ratings) given our focus on investing in companies with solid business models and strong cash flow.

We appreciate your continued support and please feel free to call us should you have any questions.

Yours truly,

John Fisher, CPA, CFA