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BRIDGEPORT
ASSET MANAGEMENT INC.

Q1 2017
Investment Commentary

Major North American equity markets continued to move upwards in the first quarter of 2017, as investors remained largely optimistic that President Trump will be able to work with Republicans in Congress to implement a pro-growth economic agenda.

While our fortunes in Canada have always been tied to the U.S., it seems this has never been more true than at present. The federal and various provincial governments have been lobbying hard to prevent the U.S. administration from undertaking any initiatives that would hamper cross-border trade activity. In addition, despite their stated goal of levelling the economic playing field for lower income Canadians, the Liberal federal government appears to be taking a cautious approach to raising taxes, as it must be mindful of maintaining the relative competitiveness of our income tax regime in light of President Trump's goal of lowering U.S. tax rates.

In the coming months, we expect markets will be closely watching for signs that President Trump is going to be successful in implementing tax reform. A setback on this front would be viewed negatively as investors seem to be operating under the assumption that it should be easier to build a compromise around tax reform as compared to replacing "Obamacare", where Trump stumbled badly in the first quarter, causing equities to temporarily dip.

At the end of the day, while we certainly pay attention to macroeconomics and the political environment when we make investments at Bridgeport, our investment process is primarily "bottom-up" driven, meaning we focus mainly on the individual circumstances and characteristics of each company that we research. Companies are indeed impacted by macro and political factors, but they also face a variety of opportunities and challenges unique to them that ultimately determine their success. Our research primarily focuses on these individual company factors as it has proven very difficult to translate broad economic and political forecasts into profitable investment ideas (although facts aside, there are many economic "experts" out there who would beg to differ).

The first quarter was relatively quiet in terms of portfolio changes, although two of our equity holdings, RDM Corporation and DH Corporation, announced they were being acquired. With a market capitalization of approximately $125 million, RDM is a small, "under-the-radar" software company that attracts little Bay Street research coverage. The company's flagship product enables banks to allow customers to make remote deposits by taking a picture of a cheque through their phone or other hardware. We originally invested in the company as a result of its "sticky" customer base, strong free cash flow generation and solid balance sheet (cash accounted for about 40% of RDM's market value). Most importantly, we acquired shares in RDM at what we felt was an attractive valuation for a company with these characteristics (around 7x operating earnings). In February, Deluxe Corp., a large competitor, announced an offer to buy RDM at a significant premium to its recent trading price.

DH Corporation exhibits many of the same characteristics as RDM, although it offers a much more diversified set of products and services to financial institutions. DH originally started out as a cheque printer but then went on an acquisition spree around 2014, diversifying into other profitable financial service software niches in order to offset slowly declining volumes in cheque printing. After the company missed a quarterly earnings target last year, its stock declined significantly, but we decided to hold on to our position as we felt the market had overreacted and the stock was materially undervalued. After announcing a sale process in late 2016, a U.S. private equity firm agreed to purchase DH in March at a price much more reflective of the company's underlying value.

We would also like to highlight Granite REIT, a recent addition to our Bridgeport Canadian Equity Fund. Granite owns special purpose manufacturing and distribution facilities, and like RDM, is underfollowed by the investment community. Granite's primary tenant is Magna International, a Canadian, publicly traded auto part manufacturer, and the company's properties are spread across Canada, the U.S. and Europe. We invested in Granite based on its attractive valuation, healthy dividend yield, conservative management and substantial balance sheet capacity to make acquisitions. We believe the market will view Granite more favourably as it diversifies its tenant base through acquisition, lowering its exposure to Magna.

In terms of dispositions, we decided to sell the majority of the Bridgeport High Income Fund's preferred share holding in Equitable Group, one of the largest subprime mortgage lenders in Canada. While we think the investment remains creditworthy given its place in the company's capital structure, we nonetheless decided to sell most of the fund's position in early April as we are becoming increasingly concerned about real estate prices in various Canadian markets (as we have discussed in prior letters) and saw more downside versus upside in continuing to own the investment.

Finally, on the staffing front, we continue to grow the Bridgeport team and have brought on Eric Yip to bolster our accounting, finance and operational capabilities. Eric is a CPA and has more than 10 years of experience in accounting and fund administration.

We thank you for your continued support in 2017. As always, please feel free to reach out with any questions.

Yours truly,

John Fisher

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