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Looking back on the first half of 2014, there were a number of surprises and noteworthy trends.

First, despite solid stock market gains, the great rotation out of bonds into equities has not materialized to the extent many expected. In the US, inflows into bond funds exceeded contributions to equity funds by nearly 50% in the first six months of the year. Fixed income demand was driven by (i) disappointing US growth which caused treasury bonds to rally nearly one-half of a percentage point (and bond prices to rise), (ii) renewed interest in the European high yield and emerging market bond sectors and (iii) investors' continuing quest for yield.

Second, the start of the year was marked by record low volatility in equity markets despite investor concern that stocks have risen too far too fast. The VIX index, a common indicator of stock market volatility, dipped below 11 in June as compared to a recent 52 week high of 21 and record levels in the 78 range during the 2008 financial crisis.

Third, equity markets continued to move forward with the Canadian market finally getting its day in the sun as commodity stocks rallied, enabling the TSX to outpace the S&P 500 in the first half.

Given this backdrop, we are carefully evaluating our portfolio holdings with a view to retaining those securities which we believe continue to be attractively valued and selling any which we believe may be overpriced. In general, we still see value in some parts of the equity and bond markets, although it is harder to find and one has to be much more selective as compared to a few years ago. It is also clear that some segments of the stock market including many momentum and internet-based equities are highly overvalued and likely to disappoint investors over the long term as growth expectations will be difficult to achieve.

In terms of portfolio changes, we added one company, Quebecor Inc., to our equity portfolios during the quarter. Quebecor is a leading Quebec-based media company which provides cable TV, internet, wireless telephone services, publishes a variety of newspapers and web publications and operates eight specialty TV stations. The company has a dominant position in the Quebec market, generates substantial recurring revenue and cash flow and was attractively valued based on our entry point.

We added a number of bond and equity positions to Bridgeport's new High Income Pooled Fund including common shares of Dream Office REIT and bonds issued by Parkland Fuel, Auto Canada, Direct Cash Payments and Iron Mountain Canada. We are being very selective with our bond purchases as companies are clearly taking advantage of strong investor appetite for yield which is allowing them to issue bonds at low interest rates relative to the longer term risks inherent in their business models.

The balance of the year could be eventful in terms of geopolitical risk as conflicts in the Middle East and Ukraine may impact markets depending on the course of events. We will, of course, be monitoring these macro events carefully to assess how they could potentially impact the financial results of the businesses in which we have invested.

As always, we encourage you to call should you have any questions about your portfolio. We wish you all the best for the balance of the summer.

Yours truly,

John Fisher

John Fisher, CPA, CFA