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BRIDGEPORT
ASSET MANAGEMENT INC.

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Investment Commentary

Both stock and corporate bond markets rallied sharply in the third quarter of 2009 as investor fear continued to dissipate. While the global economy is still in recovery mode, it appears we have at least moved past all the dangerous and potentially self-fulfilling talk of a full-scale depression that dominated the news earlier in the year.

We are particularly encouraged that the re-opening of the capital markets over the last several months has allowed companies to raise financing on more normal terms and shore up their balance sheets. At the depth of the market downturn, it was extremely difficult for companies to obtain capital given negative investor sentiment and the lack of liquidity in the markets. This obviously had a devastating effect on public equity values as investors were questioning the solvency of many public companies including some that were previously believed to be in relatively solid financial shape.

Despite the recent stock market rebound, our sense is that equity markets have been climbing a "wall of worry." Investors may be reallocating some of their cash into equities, but they are doing so very cautiously as evidenced by the fact that approximately 85% of all money flowing into mutual funds in the U.S in the third quarter was directed toward bond funds as opposed to equity funds. We view this investor caution as a relatively positive sign for the long term, although we suspect that near term stock market returns may be relatively choppy given the recent run-up in share prices and the possibility that expectations for the economy may be overly optimistic.

We believe that stock market returns from this point forward will be primarily predicated on corporate earnings growth. Over the last few quarters, companies have generally been propping up earnings by cutting costs to make up for declining revenue. Going forward, they are going to have to drive revenue growth in order to increase earnings as cost-cutting opportunities are dwindling. The question is how easy is it going to be for companies to drive top line growth in this economic environment?

Given the potential challenges ahead, we remain committed more than ever to our bottom-up, value-oriented investment philosophy. Simply put, we believe buying ownership in good businesses at inexpensive prices helps us mitigate risk and enhance returns. In this vein, we would like to highlight our equity investments in two companies: CGI Group and Keystone North America.

CGI Group

CGI Group provides end-to-end information technology services to businesses including systems integration and consulting, application management, technology management and business process services. The company provides these services to clients in the government, health care, financial services, telecommunications, utilities, retail, distribution and manufacturing sectors. CGI often serves clients under multi-year contracts and generated annual revenue of approximately $3.7 billion in 2008. The company has a high level of recurring revenue, providing shareholders with a relatively steady base of earnings. Based in Montreal, the company's market capitalization on the TSX is approximately $4 billion.

CGI's chairman and founder, Serge Godin, owns 10% of the firm (worth $400 million), ensuring a strong alignment of interests between the company's management and shareholders. We initiated a position in CGI for our clients several months ago at a very reasonable valuation relative to the company's earnings power and growth profile. Since then, there has been some industry merger and acquisition activity and market participants have begun to recognize the underlying value of CGI's business.

Keystone North America

We wrote about another undervalued business in our last client investment letter called Keystone North America. You may recall that Keystone operates funeral homes in second tier markets in the U.S. and Canada. We initiated a position in Keystone for both our existing equity and high income client portfolios in early 2009 at $3.50 per share based on the company's profitable, recession-resistant business model, attractive valuation and strong dividend yield (approximately 25% at the time of our initial purchase).

We are pleased to report that about two weeks ago Keystone entered into an agreement with Service Corporation International, a U.S. funeral home operator, to sell itself for $8.00 per share. After learning of the news, we sold our position Keystone in late October for $7.75 per share as we believe Service Corporation has offered a reasonable price and the deal could take several months to close pending shareholder approval.

Our investment in Keystone is a good example of the type of undervalued situation in which Bridgeport likes to invest. Despite the fact that Keystone operates under the radar and has a minimal research following on Bay Street (indeed, the news of the company's sale was not even reported in a major newspaper), we liked the company's simple, yet profitable business model and had an opportunity to spend considerable one-on-one time getting to know Keystone's senior management team before investing. Most importantly, we were able to place a value on the Keystone's future earnings with a high degree of confidence and determine that the company's intrinsic equity value was far greater than was reflected in the company's share price.

While identifying undervalued investment opportunities is at the heart of Bridgeport's investment process, we certainly don't expect all the stocks we select to appreciate to our target value as quickly as Keystone did. When a company's shares are mispriced in the market, the mispricing may persist for a day, five months or even five years. The key is to remain patient and committed provided the rationale for investing in the company remains valid and the opportunity for an above average rate of return still exists.

As always, please feel free to call should you have any questions or wish to discuss anything about your portfolio. Thanks for your continued support.

Yours truly,

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