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BRIDGEPORT
ASSET MANAGEMENT INC.

Q3 2015
Investment Commentary

2015 continues to be a difficult year for both stocks and bonds. If current trends continue through the remainder of the year, 2015 will be the first year since 1990 that investors would have been better off holding cash or short term equivalents as opposed to investing in most North American equity and corporate fixed income indexes. Given this context, we are pleased to have achieved modest gains in our equity and fixed income mandates so far this year.

The US stock market (S&P 500) dropped 6.9% in the third quarter, the worst quarterly return since Q3 2011. On a year-to-date basis through September 30, the S&P 500 and TSX Composite were down 6.7% and 9.1%, respectively. Corporate debt securities similarly suffered during the quarter. Investment grade spreads increased approximately 30 bps, while high yield bond spreads rose over 160 bps in Q3.

The big news in the quarter was the slowdown in China's economy which has put further pressure on commodity prices and dampened global growth. The U.S. dollar continued to strengthen amidst this backdrop, leading many U.S. corporations to report disappointing earnings as a result of currency translation losses associated with their foreign operations.

Our current view on the stock market is that the recent declines have created pockets of opportunity in certain areas, while other segments remain fully valued. We have attempted to take advantage of this market volatility and were particularly active in the quarter initiating a number of new positions for our Bridgeport pooled funds.

For the Bridgeport U.S. Equity Fund, new investments include shares of Wells Fargo, Nestle, IBM and United Technologies. We viewed this year's underperformance in IBM's stock as a good opportunity to initiate a position in the software and technology behemoth. With a solid balance sheet and significant recurring revenue (mostly from software and services), we think the company's shares are attractively priced and offer strong upside going forward as the company continues to transition its business toward cloud computing.

United Technologies is another well-known company whose share price has been punished by the market this year. The conglomerate operates in several industrial segments including elevators (Otis), HVAC (Carrier), security equipment, airplane engines (Pratt & Whitney) and rocket equipment. While the strong U.S. dollar and slowing Chinese economy have hurt the company's profit margins, we believe these issues are somewhat overblown and that, over the longer term, United Technologies will get back on track and perform well.

In the Bridgeport Small & Cap Equity Fund, we initiated new positions in EPR Properties, E-Plus Inc., Ten Peaks Coffee, Corus Entertainment and 1-800 Flowers, amongst other buys. Another company in the technology space, E-Plus develops comprehensive and customized hardware and software-based IT solutions utilizing products by Cisco, VMWare, EMC and HP. Its growing customer list includes both blue chip companies and hundreds of small and medium-sized businesses as well as various levels of government.

Our investment in Ten Peaks Coffee, an under-the-radar company, is an effort to capitalize on another emerging dynamic: continued world demand for specialty coffee. The BC-based company owns the only customer branded and chemical-free coffee decaffeination method – dubbed the “Swiss Water Process”. Its processed decaffeinated green beans are sold to specialty coffee roasters, importers and mass retailers in Canada and the US including Tim Hortons and McDonalds USA.

In the Bridgeport Canadian Equity Fund, we purchased equities issued by several companies including Canadian National Railway and Morguard Corp. Some of you may recall that we have owned shares of Morguard in the past. The company owns and manages over $15 billion of residential, retail, industrial and office assets in Canada and the US and also manages various institutional real estate assets.

For our Strategic and High Income Funds, we acquired corporate bonds issued by Hub International and Gray TV during the quarter. Privately-held Hub International offers a variety of insurance and employee benefit products in North America and ranks among the world’s largest insurance brokers, while Gray Television owns and operates television stations in 45 cities and towns across the United States (its stations are mainly affiliates of the big four U.S. networks). These bonds carry yields to maturity of approximately 8% (Hub) and 6% (Gray).

Despite lower volatility in October, we expect market fluctuations to remain a fact of life for the rest of the year and into 2016. Investor nervousness is likely to be stoked by ongoing concerns over China and the potential threat of a U.S. government shutdown as Congress must approve yet another debt ceiling increase.

We, of course, will be monitoring all these development closely and evaluate whether they pose any long term threats to the businesses in which we have invested.

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

Yours truly,

John Fisher

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