Bridgeport Asset Management Inc.
Tel: 416-849-2225 x 103
info@bridgeportasset.com
www.bridgeportasset.com

BRIDGEPORT
ASSET MANAGEMENT INC.

Q4 2019
Investment Commentary

As we transition into a new decade, we are reminded of Frank Herbert's observation in his literary epic *Dune* that "Mankind has only one science … it's the science of discontent". The quote seems particularly apropos to financial markets over the last decade in that virtually every year seems to begin with a certain degree of investor unease. Everyone is always waiting for the "other shoe to drop", either in the form of an economic recession or stock market decline. Yet, with hindsight, it has been a no-brainer to have been fully invested in the markets over the past ten years.

The investment publication *Barrons* has written that "the new year -- and new decade -- begin with an amplified awareness not of what else investors might attain, but of what they stand to lose… Central banks must wean the markets off monetary life support, but without inducing withdrawal. Everything must go right. Anything can go wrong." Interestingly, this quote was not published recently, but over a decade ago in December 2009 at the beginning of a long bull market.

Without a doubt, markets have climbed a "wall of worry" since the Great Recession of 2008, despite the fact that economic conditions have been favorable. The past decade has seen US unemployment decline from nearly 10% to 3.5% and GDP growth improve from -2.5% to +2.1%. Canada showed similar, if less stellar, results with unemployment improving from nearly 9% to below 6%, while GDP growth increased from -4% to +2%. During the same period, yields on 10-year government bonds dropped in half and corporate loan spreads tightened in both countries.

Declining interest rates have obviously played a significant role in stimulating economic activity and boosting asset valuations across the investment spectrum. The effect of interest rate levels on the markets was clearly seen in 2018 and 2019 as these years were virtual opposites of each other.

2018 was a year of rate increases and recession fears during which virtually every asset class around the world delivered negative returns, whereas in 2019 practically every investment category generated positive returns as interest rates fell. Of course, this past year's strong results have to be viewed from the perspective of a low starting point after a disappointing end to 2018. For example, if investment results from Q4 2018 are combined with results from all of 2019, the annualized returns in Canadian dollars from the S&P 500 and TSX Composite fell into a solid, yet not spectacular, range of approximately 8% and 11%, respectively, over the 15 month period.

Bridgeport Asset Management Inc.
Tel: 416-849-2225 x 103
info@bridgeportasset.com
www.bridgeportasset.com

Speaking of discontent, we often muse with clients that being a money manager means always being unhappy about something. We are constantly challenging the rationale behind each of our portfolio holdings to ensure our thinking remains valid and that we are invested in the most attractive opportunities. This constant state of questioning does create a certain degree of discontent amongst the team here, but it is also a key element behind what drives us to do our best as stewards of both your capital and ours.

Turning our attention to 2020 and beyond, our plan is to continue doing what we think we do best - investing in high quality companies with sustainable business models that generate attractive rates of return on invested capital. We believe long term wealth is created by investing in focused, well-researched portfolios. The opportunity cost of trying to time the market is enormous as investors who shunned the stock market after 2008 will attest (including those who were spooked by articles offering advice like the one referenced above from *Barrons*).

Owning great public companies over the long haul has paid off for our clients and the Bridgeport team as your fellow investors. We recently looked back at our equity portfolio from ten years ago and note that we have held several stocks continuously since 2009 including CGI Group and Royal Bank in Canada and Disney and Johnson & Johnson in the U.S. Owning companies for a decade, however, has become more difficult since Bridgeport's early days for a number of reasons. First, technological innovation is disrupting industries at an unprecedented pace, which means the "investable" life of certain businesses is often shorter today than it was in the past. Second, merger and acquisition activity - specifically private equity buyouts - has ramped up considerably, resulting in the conversion of many listed companies into private concerns. Since 1996, the number of publicly traded firms has fallen by 46%. In contrast, private equity assets under management have grown sevenfold since 2002, twice as fast as global public equities.

Our desire to take advantage of the increasing number of investment opportunities in the private asset investment world was one of the factors behind the launch of the Bridgeport Alternative Income Fund in late 2018. To date, the fund has invested in a wide range of U.S. and Canadian private asset-oriented, income generating sectors including traditional and special situation private corporate loans, distressed debt, structured preferred private equity, aviation leasing and commercial and residential real estate debt. Other portfolio strategies we are currently evaluating for inclusion in the fund include film finance, music royalties, vessel finance and pharmaceutical royalties, amongst others.

Bridgeport Asset Management Inc.
Tel: 416-849-2225 x 103
info@bridgeportasset.com
www.bridgeportasset.com

BRIDGEPORT
ASSET MANAGEMENT INC.

Q4 2019
Investment Commentary

As we have mentioned in the past, one key advantage to the fund is that it is expected to be relatively uncorrelated to stock and bond markets given the wide exposure to a variety of private asset classes across different geographies.

Finally, we would like to thank you for your continued trust over the past year. And thanks to those of you who recommended Bridgeport's services to their families and friends -- we always appreciate your thinking of us.

May 2020 bring you and your family much health, happiness and prosperity.

Yours truly,

John Fisher

John Fisher