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**EdgePointWealth.com**

*The images show Bath & Body Works and Victoria's Secret stores. The former sells cosmetics and home essentials, while the latter specializes in clothing, lingerie and scents. Both retail businesses previously operated under L Brands, Inc. In 2021, L Brands spun off Victoria's Secret and renamed itself Bath & Body Works, Inc. L Brands was first purchased as a credit holding in the EdgePoint Portfolios in 2018. When we made our original investment, retailers across North America were grappling with too large of a store base as sales were moving increasingly online. Our view was that reducing unprofitable store count, particularly the stores in dying enclosed malls, would reveal a highly profitable, growing business. Both Bath & Body Works and Victoria's Secret are category leaders offering high-quality product at accessible price points. Both benefit from reoccurring sales of high value-per-size products to households that are migrating toward "prestige" personal care and specialty wear. Over our eight-year holding period, the bonds generated an IRR of approximately 11.8%. The company redeemed the bonds this summer. It was a great investment, but we are still sad to see them go.*

As at September 30, 2026, Bath & Body Works, Inc. and Victoria's Secret Co., securities are not held in an EdgePoint Portfolio. L Brands Inc. securities were held in EdgePoint Global Growth & Income Portfolio and EdgePoint Canadian Growth & Income Portfolio. They are not representative of the entire portfolio, nor is it a guarantee of future performance. EdgePoint Investment Group Inc. may be buying or selling positions in the above securities. Past performance is not indicative of future results.

Important information

Internal rate of return (IRR) is money-weighted return that accounts for the timing and magnitude of cash flows into an investment and represents an investment's actual return. The IRR is in US$ and for the L Brands Inc., 6.694%, due 2027/01/15 bonds held in EdgePoint Global Growth & Income Portfolio and EdgePoint Canadian Growth & Income Portfolio between July 30, 2018 and April 10, 2026.

Annualized total returns, net of fees (excluding advisory fees), in C$. As at September 30, 2026.

*EdgePoint Global Growth & Income Portfolio, Series F* – Since inception (Nov. 17, 2008): 11.26%, 15-year: 10.86%, 10-year: 8.30%, 5-year: 8.46%, 3-year: 12.09%, 1-year: 9.63%, YTD: 7.45%. *EdgePoint Canadian Growth & Income Portfolio, Series F* – Since inception (Nov. 17, 2008): 11.39%, 15-year: 10.42%, 10-year: 10.05%, 5-year: 11.34%, 3-year: 13.14%, 1-year: 3.09%, YTD: 2.54%. Series F is available to investors in a fee-based/advisory fee arrangement and doesn't require EdgePoint to incur distribution costs in the form of trailing commissions to dealers.

*Photo credit*
Stan Reese (Bath & Body Works) and EdNurg (Victoria's Secret) - *stock.adobe.com*

# Q3 2026 Credit commentary

## CRACKS IN THE PIÑATA
**By Derek Skomorowski**

A piñata. Private credit. The perfect analogy.

The polite thing to do would be to take a quarter off from making disparaging comments about private credit. But why stop now?

The collapsing price of publicly traded business development companies ("BDCs"); headlines around First Brands, Tricolor and Market Financial Solutions; frauds, write-offs and catastrophic markdowns. Investors are waking up to the pitfalls of what was previously perceived as a dreamlike return profile of private credit portfolios. It's a real-life "Hotel California," but all steely knives and none of the feast.

At the same time, the leveraged loan market – another competitor to high yield bonds – is experiencing its own issues. As it turns out, doling money out of a helicopter and folding the IOU into a "collateralized obligation" doesn't absolve managers of doing credit work. You'll still want to know if the borrower can pay you back.

And now rising interest rates add fuel to the fire. Quick reminder that as a fixed income investor, you're a lender. You want higher interest rates because that's your return. You want higher rates as long as you haven't locked yourself into a long-duration bond fund and are in a position to take advantage. Across your EdgePoint Portfolios, we're in a position to take advantage.

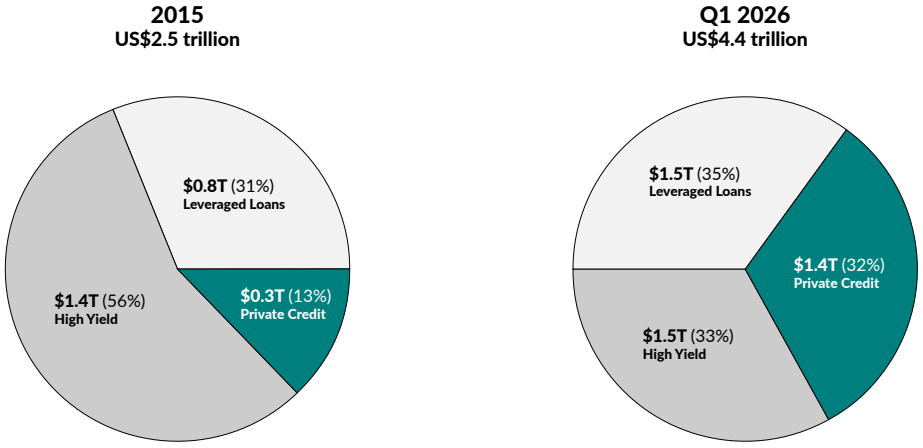
All told, the credit market changed in 2026. After a period of nothing to do, we suddenly have a lot to do; conditions are finally ripe to build a portfolio that can achieve the goals we've set for ourselves.

To understand what's driving the action, let's walk through the evolution of credit over the past decade.

### Time machine

Dial things back 10 years and credit markets look very different. High yield was the dominant subset of a US$2.5 trillion United States "leveraged credit" market (take "leveraged credit" to mean debt for businesses rated below investment grade and borrowed from investors, not banks). Leveraged loans (technically publicly traded bank loans to large businesses, but more easily thought of as floating-rate high yield bonds with lots of paperwork) were half the size, and private debt was the forgotten ugly stepchild.

**U.S. leverage credit markets**
2015 vs. Q1 2026



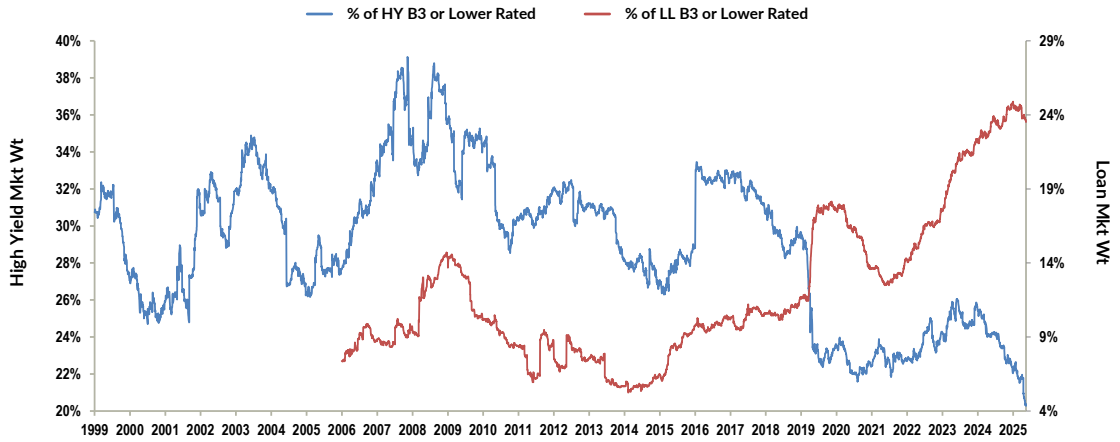

Source: Morgan Stanley Research, "Softening Fundamentals & Growing Dispersion", *Private Credit Tracker 1Q26*, June 18, 2026.

Fast forward to today, and the size of the high yield market is basically flat. Growth from US$1.4 trillion to US$1.5 trillion is actually a *decline* in the context of a U.S. economy that's grown by 73% over the period. But companies didn't stop borrowing. Gangbusters growth in both the leveraged loan market almost doubling in size and private credit *quadrupling* sapped borrowers from the high yield market. Combined, the "leveraged credit" universe grew by 76%.

There's no mathematical way that competing lending markets could grow by that magnitude without reducing opportunity in the high yield market. Increase the availability of capital and you reduce the return. But it gets better (or worse depending on what bag you might be holding). Because beyond the magnitude of the growth, the credit quality of the borrowers leaving high yield for funding alternatives is even more striking.

The following figure shows the percent of the high yield (blue) and leveraged loan (red) markets rated in the lowest rating tier by the bond rating agencies. These are the borrowers most likely to go bankrupt. Looking first to high yield, this bucket of "almost-bankrupt" companies has declined from 27% of the market in 2015 to 20% today. Over the same period, the portion of leveraged loans in the same rating tier has risen from 7% to 24%. The loan market doubled in size, and it did so by taking the crumbiest borrowers from the high yield market.

**Leveraged loans vs. high yield bonds – % rated B3 or lower**
1999 to 2026




Source: J.P. Morgan North America Credit Research, *2026 High Yield Bond and Leveraged Loan Midyear Outlook*, 12 June 2026.

In our view, despite all of the uncertainty over the past several years – from a regional banking crisis, to Russia invading Ukraine, to Liberation Day, to conflict in the Middle East – this is why high yield has seen such a dearth in volatility and a relentless grind tighter in spreads. No wonder it's been so unnaturally difficult to find opportunities when high yield investors are fighting over fewer and fewer higher-quality bonds. The riskiest borrowers have been leaving for less-discerning pastures.

If you think that's a recipe for disaster, we're going to need a bigger tablespoon. Remember, over this same period, the private credit market grew by a multiple of four. Because private credit investments don't have ratings and because we can't pull up the financials of private credit portfolios (nor the private companies they've been funding), we don't know the creditworthiness of the companies borrowing in private credit markets. But we have an idea. For example, there's this stat from JPMorgan Research:

> *"In 2025, out of the $40.8bn of Broadly Syndicated Loan deals refinanced into Private Credit, 88% of these deals had a rating of B3/B- or lower."* [i]

What?

Or this one:

> *"90% of Broadly Syndicated Loans refinanced into Private Credit since the beginning of 2024 had a rating of B3/B- or lower."* [ii]

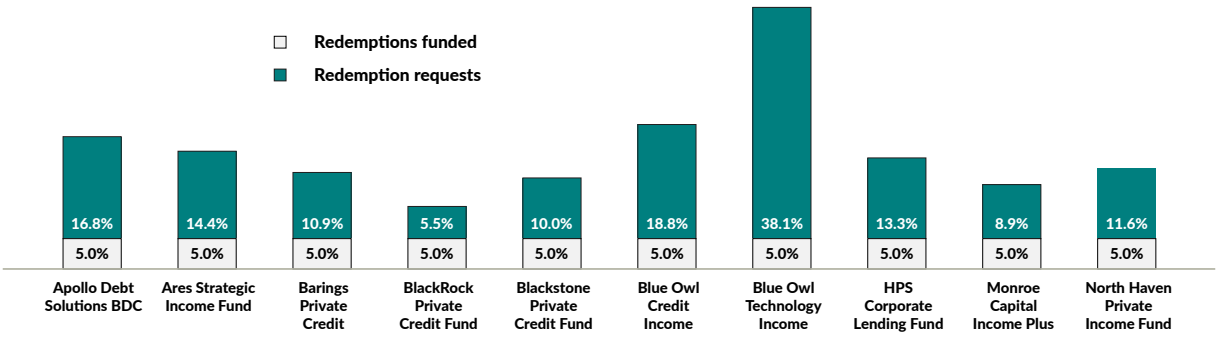
Ticking. Timebomb.

It's hard to overstate how bonkers this is. Debt at this credit rating would capture nearly all defaults, as borrowers are usually downgraded into the category before filing for bankruptcy. If the long-term default rate on overall high yield is 4%, this "B- or lower" category has a default rate of 15% to 20%. That's an annual rate. As in, every year.

Over the past decade, risk has been migrating from high yield bonds into loans, and from loans into private credit. And while the migration was occurring, the *risks themselves* were ballooning. Tally up all the low-rated credit in the market and it's an order of magnitude larger than what it's been in the past. Private credit managers have been financing companies that could never borrow in public markets.

The clock is ticking on this free-for-all lending. Recognizing private credit isn't a panacea, investors have been rushing for exits. As of June 30, 2026, roughly 60% of private credit fund redemption requests were unfilled (that's French for "gated").[iii] With Fitch updating its estimated default rate to 6.3% across the asset class, pain at the asset level is growing.[iv] Investors are scrambling to get out. There's a fire in the theatre and the usher's asleep in the firetruck blocking the escape.

**Private credit funds – % of redemptions funded vs. requests**
Apr. 1, 2026 to Jun. 30, 2026




"Elevated Redemptions Persist for Perpetually Non-Traded BDCs" *Fitch Wire*. July 7, 2026.

## A "haves and have-nots" kind of market

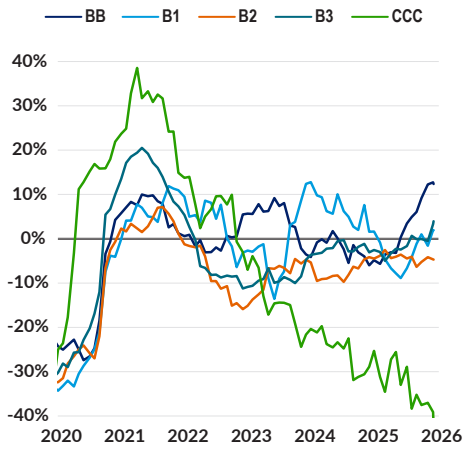
We don't need an opinion on private credit assets (our opinion is most are loaded with crap) to say with confidence that growth in the asset class will slow. And if growth simply slows from here, the implications for our investment universe (you know, bonds that trade) are enormously positive.

Today, private credit portfolios are desperate for cash. Companies expecting to borrow in private credit are being turned away, and as maturities come due, private credit managers are directing companies to try their luck in public markets. Year-to-date private credit lending is down -33% from the same period in 2025, and in August, volume was down -81% (!!!) from the previous year.[v] It's what *CreditSights* describes as a private credit to leveraged loan refinancing "bonanza."[vi] Bonanza sounds exciting!

Leveraged loans have their own fiasco. Two-thirds (~66%) of the leveraged loan market is held in "collateralized loan obligations," or "CLOs."[vii] We'll leave the masterclass on CLOs for another day – what's important here is these are *credit rating-sensitive* portfolios. This means these investment funds are capped in the amount of low-rated debt they can hold. The deteriorating credit quality highlighted over the past decade was a tinderbox for forced selling conditions. The tinderbox is beginning to ignite.

This (incredibly confusing) chart shows the "net migration" of credit ratings in and out of different rating tiers. It shows the percent of companies upgraded out of a rating bucket net of all downgrades back into the bucket. In most market environments, these lines should hover right around zero. Not today; net migration of CCC-rated loans is *-40% (!)*. This means that for every loan upgraded out of CCC, almost two are being downgraded back into CCC. That's a problem when CLOs are already hitting their limit.

**Rating cohorts – Net migration**
2020 to 2026

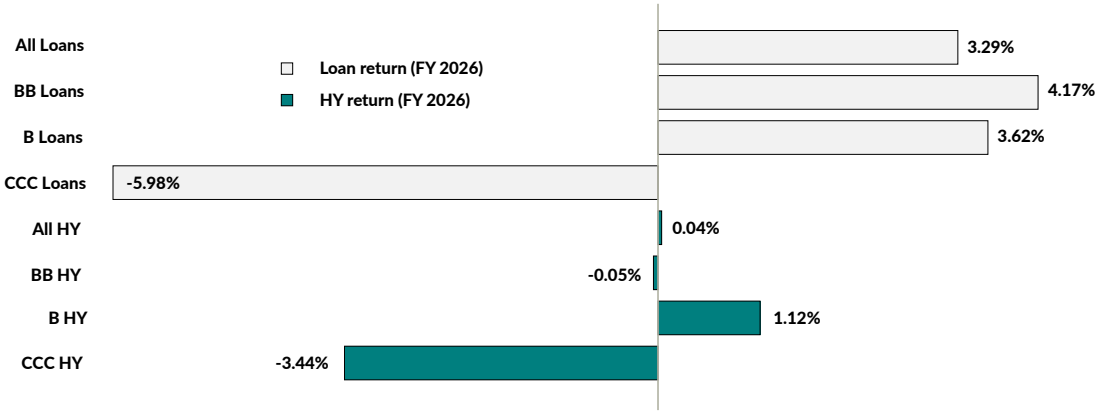



Source: BofA Global Research, "Got growth, want beta", *High Yield & Loan Strategy*. July 10, 2026

The effects are cascading across publicly traded markets. Forced selling of low-rated loans – not just CCC-rated loans, but any loan where the taint of uncertainty means it may one day be downgraded – is running headlong into private credit borrowers needing a new home. Whether software companies in the age of AI or housing-related businesses with depressed new construction and existing home sales plumbing all-time lows – anything that isn't "consensus high quality" needs to be sold. There's crowding taking place in the upper echelons of the market, while whole sectors are sold with reckless abandon.

The following chart breaks down year-to-date returns by quality. Credit spreads near all-time tights mask turmoil beneath the surface. The overall loan market, for example, is up +3.3% on the year. But the CCC-rated corner is down -6%. It's a near unprecedented divergence in performance across ratings.

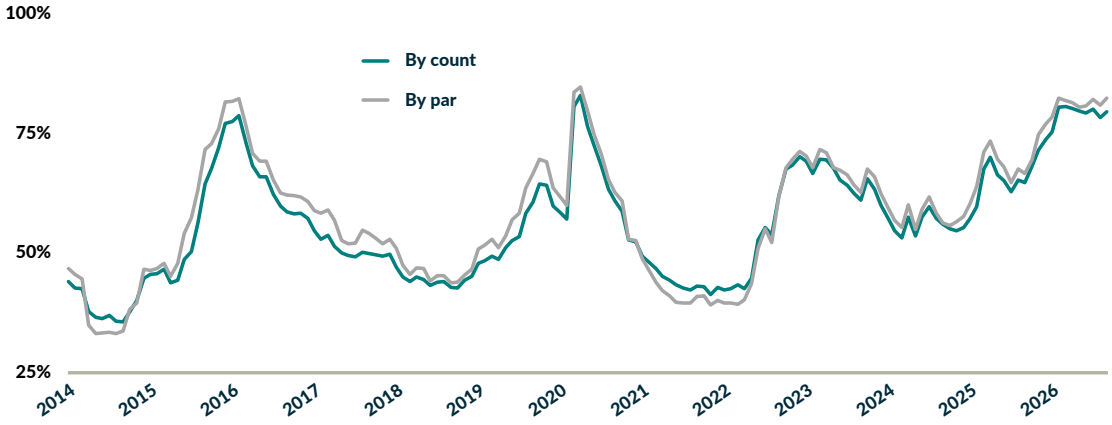
**Leveraged loans and high yield bond returns (US$)**
Jan. 2026 to Sep. 2026




Source: BofA Global Research, *Loan Chartbook – Q3 2026*. October 1, 2026.

The magnitude of divergence is particularly striking in the context of what's otherwise a benign environment. Here's a graphical representation of dispersion – the number of loans trading higher compared to the number trading lower on any given day. Prior periods of dispersion at this level – when oil declined to $8/barrel in February 2016 or the COVID lockdowns in March 2020 – were extreme market events. The catalyst today is nothing.

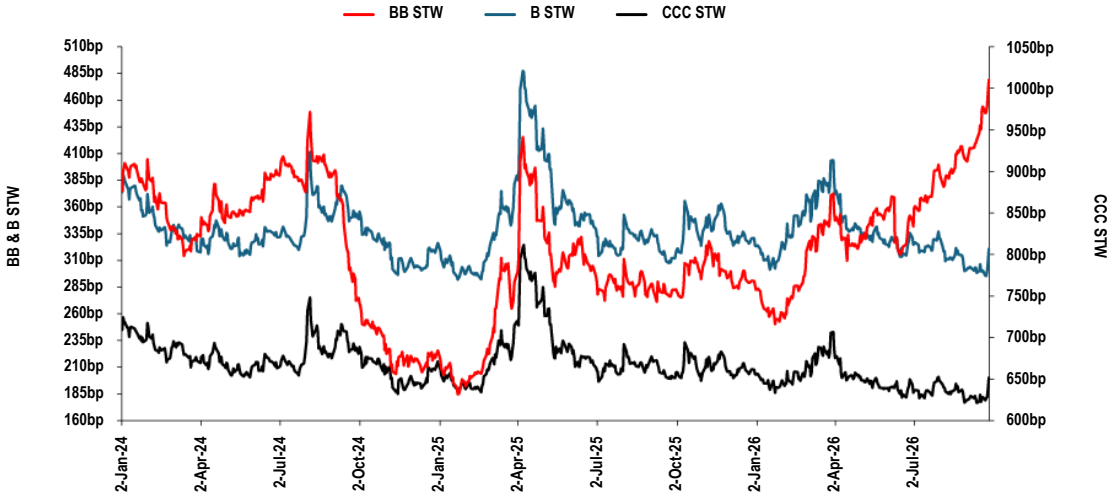
**Dispersion among all performing loans**
Jan. 2014 to Sep. 2026




Source: BofA Global Research, *Loan Chartbook – Q3 2026*. October 1, 2026.

This dispersion is crashing into high yield bonds. Many businesses diversify funding by borrowing in both the loan and high yield markets. But as forced selling from CLOs pushes loan prices lower, bond investors in the same issuer can't ignore the crazy price move. Low-rated bonds, particularly CCC-rated bonds, are being shellacked. Headline high yield "credit spreads" painting a picture of relative bliss are a façade masking chaos in corners of the market.

**BB-, B- and CCC-rated bonds – spread-to-worst**
Jan. 2024 to Sep. 2026




Source: JP Morgan, *JPM High-Yield and Leveraged Loan Morning Intelligence*. September 28, 2026.

## Seeing dollar signs

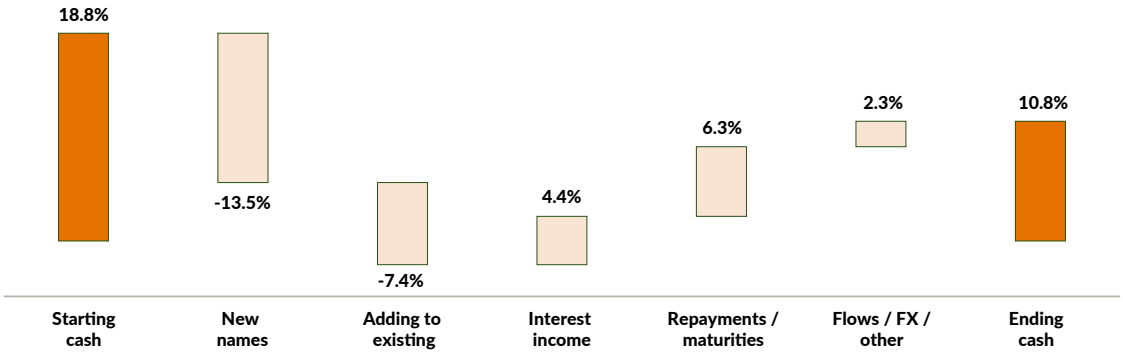
When there's nothing to do, it's hard to stay fully invested. As far back as December 2023, our portfolio cash was beginning to pile up. At the time, we wrote how cash would not be a drag on return, but an accelerant. Our cash is dry powder, and it provides flexibility to take advantage the moment there's volatility. Our fourth quarter 2024 commentary then asked, where's the volatility? We will never be willing to part with cash unless we have something smart to do, and dumb deals were ruling the day.

The first nine months of 2026 have given way to opposite conditions. Uncertainty reigns, out-of-favour companies can't catch a bid and dislocations appear on a near-daily basis. Unique to the current selloff is how long depressed bond prices remain depressed. It's as if no one's looking.

The combined effects of strains in private credit, forced selling in CLOs and this relentless push higher in interest rates have created a pile up in large parts of the market. Low-rated debt has endured punishing declines. This does **not** mean that we want to load up on private credit hand-me-downs, nor are we about to pile into CCC-rated loans offloaded by CLOs. We'd have no interest in 99% of what's being discarded. But somebody will. The conditions create incredible dislocation in the broad swath of the market between "pristine" and "bankrupt." It is, as they say, a credit-picker's market.

We've been deploying capital at an accelerating pace. In EdgePoint's flagship fixed-income portfolio, we came into the year with cash at 18.8%. Between nine new names and adding to existing positions, we've deployed 20.9% of the portfolio through the first three quarters. As a credit portfolio constantly generating cash, this deployment has been offset by principal repayments and interest received. Cash today sits at 10.8%.

**EdgePoint flagship fixed-income portfolio – YTD cash walk**
Dec. 31, 2025 to Sep. 30, 2026




As at September 30, 2026. Trade activity categorized as "New names" and "Adding to existing" relates exclusively to high-yield bond holdings. Investment-grade activity is captured within Flows / FX / other. Past performance is no guarantee of future results.

Of the nine new names that received 13.5% of our cash, exactly 1.85% would fall in the bucket of "CCC." We made two small investments in pre-production Canadian gold mines, one at each end of the country. The balance of new ideas runs the gamut of amusement parks, network-monitoring software, internet services, a research database, legal services and automotive tires. What's particularly exciting is the diverse nature of the businesses and the double-digit yields we're getting from them.

Rising interest rates add kerosene. Whether brought on by concerns around inflation and conflict in the Middle East, absurd levels of AI-related borrowing, runaway deficits, central bank policy, or, yes, even strong economic growth – the rise in rates should be welcome by any and all invested in fixed income. Compounding the volatility brewing across credit, elevated rates excite us even more.

## The piñata

For 10 years the high yield market has been shedding assets to leveraged loans and private credit. As growth in each asset class runs headlong into reality, the process spins in reverse. Another whack or two and opportunities will pour like candy from a piñata. And you were wondering why the strange title. We're excited by the environment. We hope you'll share in our excitement.

[i] Source: JP Morgan, *JPM High-Yield and Leveraged Loan Morning Intelligence*. February 17, 2026.

[ii] Source: JP Morgan, *JPM High-Yield and Leveraged Loan Morning Intelligence*. August 13, 2026.

[iii] Source: Eric Platt, "Blue Owl hit by $4.7bn of redemption requests as investor exodus persists". *Financial Times*, July 2, 2026.

[iv] Source: "Fitch Ratings' U.S. Private Credit Default Rate Rose to 6.3% in August 2026", *Fitch Ratings*. September 14, 2026. As at August 31, 2026.

[v] Source: JP Morgan, *JPM High-Yield and Leveraged Loan Morning Intelligence*. September 17, 2026.

[vi] Source: CreditSights, "More PC issuers set to decamp to BSL, bolstering new-money deals during summer doldrums for M&A-related loans", *US Insights*. July 27, 2026.

[vii] Source: Source: BofA Global Research, *Loan Chartbook – Q3 2026*. October 1, 2026.

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