EdgePoint Fixed Income

Portfolios built from the bottom up, bond-by-bond

Business Owners Lending to Businesses™

EdgePoint fixed income
Established 2008

EdgePoint fixed income timeline

Nov. 2008

- EdgePoint Wealth Management launches
- First bonds purchased for EdgePoint Global and Canadian Growth & Income Portfolios

Mar. 2018

EdgePoint Opportunistic Credit Portfolio, our first fund launched since inception, becomes available to qualified investors

Nov. 2021

EdgePoint Monthly Income Portfolio, our first prospectus fund since inception, and its novel fee structure tied to market yields becomes available

$17b invested in credit since inception (November 2008)

12 sectors where we found credit-worthy businesses

670+ unique fixed income securities – bonds, loans, floaters, preferred shares and convertibles

$5m to $4.9b deal issue sizes to take advantage of opportunities, big or small

Five defaults – only **one** impairment

Source: Bloomberg LP. As at December 31, 2022 in C$. Total dollar value of credit investments represents the total of all fixed income security purchases within the EdgePoint Global and Canadian Growth & Income Portfolios, EdgePoint Opportunistic Credit Portfolio and the EdgePoint Monthly Income Portfolio since their inception dates on November 17, 2008, March 16, 2018 and November 2, 2021 respectively. Number of sectors, unique fixed income securities, issue size and defaults were calculated based on the same four EdgePoint Portfolios since their respective inceptions. Bloomberg Industry Classification Standard (BICS) and Global Industry Classification Standard (GICS) were used for sector classifications, which includes the 11 sectors plus government bonds. Defaults occur when the issuer of a bond fails to make interest or principal payments on their debt securities. EdgePoint Opportunistic Credit Portfolio is only available via prospectus exemption to qualified investors. Please see the *EdgePoint Opportunistic Credit Portfolio offering memorandum* for additional details. See page 7 for additional details on EdgePoint Monthly Income Portfolio's fee structure.

Your fixed income team
One team, one approach

Focused on fixed income:

DEREK SKOMORWSKI 10 years | **FRANK MULLEN 16 years** | STEVEN LO 8 years | TRACEY CHEN 6 years

- 15-person Investment team
- Compensation based on long-term performance
- Generational structure
- Co-invested alongside our clients

ALEX O'HARA 4 years | ANDREW PASTOR 17 years | CLAIRE THORNHILL 17 years | DEREK SKOMORWSKI 10 years | FRANK MULLEN 16 years | GEOFF MACDONALD 29 years | GEORGE DROULIAS 12 years | JASON LIU 14 years | JEFF HYRICH 26 years | JINHYUNG KWON 5 years | LEE MATHESON 21 years | STEVEN LO 8 years | SYDNEY VAN VIERZEN 9 years | TRACEY CHEN 6 years | TYE BOUSADA 27 years

Years refer to total industry experience.

Different asset classes, *same investment approach*

Most EdgePoint partners are familiar with our investment approach when buying a stock. When buying a stock, we're buying a business. Of course, we want to be buying a high-quality business, but we also want to have a proprietary insight – a view about that business that isn't shared by others. We use the very same approach when investing in bonds or as we like to view it, lending businesses money.

Proprietary insights – or unique views – are a lot easier to come by when fewer people are looking at a particular company. Naturally, this means we try to look where no one else is looking. This might mean we focus on smaller bond issues that trade less frequently and are underfollowed by other analysts. We do our own credit work and don't offload it to others. These bonds are typically misunderstood by the market. The bonds we buy are often out-of-favour for some reason that has nothing to do with the long-term prospects for the company, giving us the opportunity to form a differentiated view.

The first rule of investing is not to lose money. A thorough review of the capital structure, bond indenture and covenants help us evaluate the downside risk of our investments. And finally, any time we invest in a bond we make sure and that the return on our investment is attractive relative to other opportunities.

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Doing our own credit work

We do the same research on any company we invest in, wherever the investment is in the capital structure. Doing our own credit work helps us assess the bond issuer's ability to meet its debt obligations through the payment of periodic coupons and the return of the original principal at maturity.

Our goal is to ensure that we can generate an attractive return through these payments and/or capital appreciation that's high enough to compensate us for that risk.

Behind every bond is a business

We see fixed income as business owners lending to businesses. Our Investment team members each have a watch list of quality companies developed over their time in the industry. The research behind these proprietary databases comes from company documents, conferences and discussions with experts. As information changes, models are adjusted accordingly.

Maintaining these lists is a lot of work, but it means that we can quickly take advantage of opportunities in the market. That's why we look at businesses and not just credit ratings.

We also screen for companies, looking for events that could turn into leadership opportunities when it comes to structuring new deals. It could be new capital programs, an acquisition that triggers a need for financing or material balance sheet changes. We ask ourselves, is the situation with the business changing? Can we help bring the bond to market?

Idea generation

A constantly changing universe

For something that's supposed to be "fixed", the bond universe is different almost every day.

New faces
Bonds get issued while others reach maturity. Unlike equities, we are more likely to look at new issues than IPOs. We view new issues as a pipeline of future opportunities. If they're priced to perfection, we save our learnings in hopes that it looks more interesting in the future.

Current players
Change can happen to existing issues – our team is always on the lookout for catalysts such as a mergers/acquisitions, management changes, balance sheet upgrades or bond rating moves. By analyzing these businesses, we believe we have a better understanding on what effect these shifts mean to the company. More importantly, whether the changes present an opportunity that we can act on before the rest of the market recognizes them.

We start with researching the businesses

We find businesses by attending conferences, reading countless reports, generating watch lists and speaking with management teams.

No silos, no problems

The Investment team's structure is built on collaboration. Although we have individual focuses, we are a team of generalists working together to apply a single investment approach across the Portfolios. Sharing research generated over many years on thousands of companies across various sectors allows the team to act quickly when the market presents an opportunity. It also means that they can leverage information to find multiple ways to invest across the capital structure – a good business to buy can also be a good business to lend to.

Let's make a deal

We've developed a reputation for creativity with fixed income deals. Doing our own credit work makes us more willing to work with a business and take a leadership position in their new issue. Our input can result in a tighter security package and covenants with the goal of earning an outsized returns while better protecting our downside.

Fixed income - the *“safe”* part of your portfolio?

Our definition of risk

We define risk as “permanent loss of capital”. We don’t think it’s risky to look different or own small names, nor do we rely on the work of credit rating agencies. Paying a high price (low yield) for a great business can be a risky proposition because it’s priced to perfection. We would rather buy something with a larger margin of safety, an advantage that we can only leverage by looking for ideas in areas where others aren’t focused.

Knowing how to make money in different interest rate and credit spread environments is only part of the equation to running a fixed income portfolio with pleasing long-term returns. Avoiding losses is a crucial ingredient of our approach. A few good stock picks can cover up losses in a portfolio, but bonds rarely provide that outsized return potential. Consistently earning a return on each investment is of the utmost importance.

How do we manage...

Interest rate risk?

We take risks where we have an edge – we believe that’s in our ability to generate insights about a business’ credit quality and not predicting where interest rates are going.

To us, interest rate risk means how much we can be hurt by rapid rate changes rather than trying to add value from yield curve moves.

We view duration (a measure of a debt instrument’s price sensitivity to a change in interest rates) as a tool to prevent us from being exposed to rate movements. In the past, our short duration relative to the index allowed us to benefit from re-investing chunky principal payments in new and more interesting opportunities.

Credit risk?

The beauty of our investment approach is that it’s hinged on lending money to a business. Fixed income investing is often thought to be complicated. We can value a business by analyzing its margins, free cash and the durability of its competitive advantage.

There’s always risk, but we have a skillset at analysing the credit risks that we take. We have a track record of managing credit risk through various economic cycles and have proven to suffer limited impairments. We believe we can manage risk by looking at the business we’re loaning money to and not just an alphabet soup from credit rating agencies.

Looking different from the index?

Our fixed income Portfolios don’t look like the index. We buy individual bonds issued by businesses when we have a view of the business that’s not shared by others, and only when we are appropriately compensated (or better yet, overcompensated) for taking that view.

A concentrated portfolio beating the index on a quarterly basis is basically a coin flip, but they increase materially when the investment approach has time to succeed. Looking different is the only way you can beat the crowd.

EdgePoint fixed income
Portfolios at a glance

EdgePoint Monthly Income Portfolio

A collection of predominantly high-quality Canadian fixed income securities that provides a combination of income growth and capital appreciation with a novel fee structure.

Inception	Nov. 2, 2021
Category	Canadian Fixed Income
Distribution frequency	
Income	Monthly
Capital gains	Annually
Volatility risk profile	Low ● • • • • High

Market yield-linked management fees

We don't believe in making macro predictions, but we think we should take the fixed income market into account for management fees. That's why we've linked the Portfolio's management fees to the previous quarter's FTSE Canada Universe Bond Index's yield-to-maturity.

EdgePoint Global Growth & Income Portfolio
EdgePoint Canadian Growth & Income Portfolio

A balanced portfolio concentrated in both quality Global or Canadian businesses with growth potential and investments in fixed-income securities.

Inception	Nov. 17, 2008
Category	Global Equity Balanced/ Canadian Equity Balanced
Asset mix	
Equity	~60%
Fixed income	~40%
Distribution frequency	
Income	Quarterly
Capital gains	Annually
Volatility risk profile	Low • ● • • • High

EdgePoint Opportunistic Credit Portfolio

A concentrated portfolio that seeks to provide long-term capital appreciation and income generation by investing in corporate debt and income-producing equities.

EdgePoint Opportunistic Credit Portfolio is only available via prospectus exemption to qualified investors.

See the *EdgePoint Opportunistic Credit Portfolio offering memorandum* for more information.

Fee tier	Reference rate (%) FTSE Canada Universe Bond Index	Management fee Series F/F(N)*	Management fee Series A/A(N)*
1	< 0.76	0.07%	0.67%
2	0.76 to 1.75	0.10%	0.70%
3	1.76 to 2.50	0.20%	0.80%
4	2.51 to 3.00	0.30%	0.90%
5	3.01 to 3.50	0.40%	1.00%
6	3.51 to 4.00	0.50%	1.10%
7	> 4.00	0.60%	1.20%

Fee waiver for 2023/2024 - We've capped our fees until the end of 2024, irrespective of the index's yield-to-maturity:
Series F/F(N): 0.10% / **Series A/A(N):** 0.70%

*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.

Risk profile is based on the Canadian Securities Associations mutual fund risk classification methodology. Yield-to-maturity is the total return anticipated on a bond if it's held until it matures and coupon payments are reinvested at the yield-to-maturity. Yield-to-maturity is expressed as an annual rate of return. The FTSE Canada Universe Bond Index tracks the performance of investment-grade debt denominated in Canadian dollars and issued by Canadian government and corporations. The index was chosen as it is a widely used benchmark of the Canadian fixed income market. We manage our Portfolios independently of the indexes we use as long-term performance comparisons. Differences including security holdings, credit quality, issuer type and yield may impact fixed-income comparability from the index. 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.

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