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*This is a photo of a hydraulic fracturing vehicle owned by Calfrac Well Services Ltd., one of our credit holdings in the EdgePoint Portfolios. The company is in the process of modernizing its fleet to use Dynamic Gas Blending (DGB) technology to switch between gas and diesel to power its machinery based on situational needs. The result is reduction in costs and environmental footprint without a loss in power. Calfrac is an oil & gas services company that's provided specialized well-site solutions to exploration and production companies for over 25 years across North America and Argentina. Its main line of business is hydraulic fracturing, but it also provides coiled tubing expertise and cement services.*

As at December 31, 2025, Calfrac Well Services Ltd. securities were held in EdgePoint Global Growth & Income Portfolio, EdgePoint Canadian Growth & Income Portfolio and EdgePoint Opportunistic Credit Portfolio. Information on the above security is solely to illustrate the application of the EdgePoint investment approach and not intended as investment advice. It is 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 security.

*Photo credit*  
Calfrac Well Services Ltd.



## Q4 2025 credit commentary

### A GOOD CREDIT HISTORY

By Frank Mullen

This last month marked the end of one of our longest-standing credit investments at EdgePoint, when Calfrac Well Services Ltd. called its high yield bond issue and repaid investors before it matured.<sup>1</sup> We have a long history with the company and as I was looking at a list of our transactions, I thought there were bound to be some lessons that our team could learn from and that at least a few clients would enjoy reading about.

### Digging into the past

Calfrac was one of the first names I worked on as a young analyst at EdgePoint. As the mainstream media talked about how the world was running out of oil, a revolutionary technology was being developed in North America. Fracking promised to unlock decades of oil and gas reserves and could eventually lead to energy independence in both the U.S. and Canada.

**Our investment approach is built on identifying positive change and developing an insight around it, whether it's for a business' equity, credit or both.** It was hard to overstate the industry shift that this technology could bring. My job was to figure out how it worked, who created value in the new process, if it was sustainable and ultimately how to make money from it.

I was quickly seduced by the process of using thousands of horsepower to pump railcars of sand kilometres underground so that we could economically retrieve the lifeblood of our modern economy. It had everything a young analyst loves to see – a new technology that wasn't well understood by others, charismatic leaders and a growth profile that we thought could only go straight up. Tye and Geoff took my likely sensationalized investment report with a massive grain of salt, but somehow managed to see that there was an investible idea behind it all.

We bought the stock in May 2009 and continued to study the business.<sup>1</sup> We were still in the middle of the Financial Crisis. All financial markets were volatile throughout the year, but the credit markets were hit especially hard. My continued due diligence on Calfrac led me to a bond issue that was trading below par, indicating that investors had doubts about its ability to pay back its debt.

I dug into my first bond indenture with vigour knowing that EdgePoint prided itself on understanding the entirety of a capital structure and that our Growth & Income Portfolios could be a great home for the debt of a business that we both understood and had an insight on. Some would argue that investing in the bonds of a business when you already own the equity is a no brainer. As an equity owner, you must be comfortable with the creditworthiness of the business, or you likely wouldn't be interested in being a shareholder.

This rationale misses a key tenet in investing – the riskiness of an investment (the likelihood of permanent loss of capital) can't be looked at in isolation. It must be contrasted with the potential return. Buying the equity of a new oilfield service equipment provider has real risk associated with it. We were comfortable taking that risk as we thought the potential return compensated for it. Said simply, we knew we could lose money in certain situations, but we believed we could make multiples of our original investment as well. A bond investment can lose money but can rarely make multiples of your investment. Robust analysis is needed to ensure that the odds of losing money on a bond are low enough to compensate for the lower potential return.

We ultimately became comfortable with the downside risk of the bond thanks to its discounted price. We were now the proud owner of two investments in a company whose future was much different than my original report had contemplated.<sup>2</sup>

<sup>1</sup> Calfrac Well Services Ltd. equity was purchased in EdgePoint Global Portfolio, EdgePoint Canadian Portfolio, EdgePoint Global Growth & Income Portfolio and EdgePoint Canadian Growth & Income Portfolio in 2009.

<sup>2</sup> Calfrac Holdings LP, 7.75%, due 2015/02 was held in EdgePoint Global Growth & Income Portfolio and EdgePoint Canadian Growth & Income Portfolio.



Throughout the initial months of our investment, it became clear to me that we were early to recognize the impact that fracking could have on the oil and gas industry. Overwhelming demand from customers drove revenue straight up, growing approximately 60% in both 2009 and 2010. The market got excited and our investments rewarded our foresight by increasing in value as well.

One of the most difficult jobs as an investor is trying to determine what the market is discounting. That's a fancy way of asking what the market believes about the future of a business. The price of an investment is the culmination of the views of thousands of different investors. Calfrac's stocks and bonds rose substantially in a short period of time, and so did market expectations. Estimates about the future of the business were a straight line upwards with no end in sight.

As the market got more bullish, we became uneasy. Guided by the experience Tye and Geoff had earned over several decades, I began studying Calfrac's competitors more closely. Everyone was building more equipment, spending hundreds of millions of dollars based on the premise that demand would continue to grow for years. The risk of the industry overbuilding was growing, and one could never forget that their customers were in a cyclical business. Demand was bound to drop at some point, and if supply continued to increase the economics generated by a frack fleet could deteriorate quickly.

**A wonderful benefit of public markets is the ability to change our mind.** We underwrite every bond investment with the thought that we will own them to maturity, but we have the option to sell them if our thesis proves challenged. Our apprehension about potential oversupply and the market's willingness to ignore it led us to sell our bonds.

With a holding period of under 18 months, we still managed to generate a pleasing return. We purchased the bonds below par and sold them well over par, a testament to our thesis being correct and the market rewarding us with coupon payments and capital appreciation.

Anytime we own the equity and fixed income of a business it is worthwhile to determine how each played out and contrast the return profiles with the risk that we took. Buying discounted bonds in a business that we believed would grow for years into the future had a much different risk profile than buying the equity of a levered business in a cyclical industry. Were we rewarded differently for taking differing levels of risk?

During the hold period of our bonds, we earned an internal rate of return (IRR) of just over 14%, a great return for a fixed income investment. But this pales in comparison to the equity's IRR of 122% over the same time period.<sup>3</sup> The riskier equity investment did in fact provide a superior return to the credit investment. Hindsight is 20/20, but we believe that owning a combined equity and credit position in our Growth & Income Portfolios earned a compelling return with a risk profile that was much different than an investor who could only look at each investment in isolation. If the environment had played out differently our equity investment could have had a much worse return. **We believe that our non-siloed approach to investing across the capital structure made our Portfolios more resilient across a broader array of future outcomes for the business.**

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<sup>3</sup> 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 IRRs are for the equity and bond (Calfrac Holdings LP, 7.75%, due 2015/02) held in EdgePoint Canadian Growth & Income Portfolio between July 23, 2009 and November 19, 2010.

Annualized total returns, net of fees (excluding advisory fees), in C\$. As at December 31, 2025

EdgePoint Canadian Growth & Income Portfolio, Series F – Since inception (Nov. 17, 2008): 11.76%, 15-year: 9.69%, 10-year: 11.11%, 5-year: 15.04%, 3-year: 15.48%, 1-year: 14.06%, YTD: 14.06%. 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.



## The cost of doing business

The capital intensity of a business is often an indication of its quality. If you have the choice, it's far better to earn a return running a business without the hassle of investing millions of dollars in equipment. Calfrac doesn't have that choice since it's capital intensive. The wear and tear on equipment is real and has to be continually replaced for Calfrac to maintain its earnings power. This effectively puts Calfrac on a treadmill of having to re-invest a large portion of its profits just to maintain its current business.

Return on invested capital is often thought to be one of the best measures of business quality, and it's hard to find many capital-intensive businesses with a high return on invested capital. Add in an incredibly cyclical customer base and you can start to see why my initial bullish assessment reflected more on being a naive young analyst versus its true business quality. I had been rewarded with two successful investments but my training and growing experience in the industry forced me to have a more skeptical eye when looking at oilfield service businesses. It doesn't mean that they're uninvestible, but it does mean that you need to ensure you have a true margin of safety in the price you pay *and* you need to be prepared to weather a storm if you hit a cyclical downturn.

We passed on investing in Calfrac's next new bond issue shortly after our previous sales. Buying the bond at par required optimism about the business that we simply didn't share with the market, but I continued to follow it and the industry. **One of the great things about being an investor is your ability to compound knowledge alongside capital.** Following businesses for years can often be rewarded by allowing you to see opportunity when others are more fearful.

That opportunity came the following year when Calfrac's bonds yet again traded below par. As oil prices fell, customers' budgets began to contract. Lower budgets meant less demand for horsepower. Investor sentiment followed the company's fundamentals. Our analysis of the business evolved. It was no longer looked at as a high-growth, new technology. It was a more mature, capital-intensive business with debt on the balance sheet. We needed to stress test the business to ensure that it could survive a prolonged downturn. We also needed to determine a range of valuations for the business should it be forced to sell assets (or even the whole business) during the downturn. In a worst-case scenario, bondholders can be handed the proverbial keys, and we needed to be comfortable that we would be happy owners at the current market price.

This analysis was much more complex and nuanced than when I first looked at Calfrac, but we had more history and more confidence on the future of the fracking industry. We were confident that fracking was here to stay but we needed to ensure that Calfrac could survive.

As has often been the case, our investment was early. We bought bonds in the \$90s, \$80s and, as oil prices cratered in 2016, kept buying bonds in the \$30s.<sup>4</sup> Continuing to buy as bond prices fall isn't easy to do. Credit investors are understandably fearful of losing money. Years of great returns could be wiped out by losing all of your money on a credit investment. That can lead many investors to sell when they see gloomy clouds on the horizon. Selling at irrational prices to avoid losses can be a gift to long-term investors with a skill for valuing the assets of a business. Buying Calfrac's bonds at 30 cents on the dollar was akin to buying frac fleets at a highly discounted price. We knew the economics of frac fleets at different parts of the cycle and had seen other companies sell them in distressed transactions at materially higher prices. **The value of the Calfrac's assets weren't nearly as depressed as its bond prices, which led us to buy more.**

If your thesis is correct averaging down on any investment can be very powerful. It's especially effective in credit investing as the very bond you're buying can provide the capital to purchase more. Interest payments are a great source of funding to use to reinvest in the bonds at better prices. Thorough analysis and a long-term approach allowed us to hold the course with our investment in Calfrac.

Equity investors need two things to go right when investing. They need to get the fundamentals of the business correct and they need to ensure that the value of the business is recognized by the market. Many potential great investments have languished as it took years for the market to recognize the value that some were confident in years before. **Bonds have a maturity. That is natural catalyst for value realization.** We don't need to wait for the market to recognize the value of the company as our contract requires us to be repaid. As long as the business is a going concern, we will get our money back and are agnostic to market sentiment if we can hold to maturity. We were rewarded with an IRR of over 17.5% with a hold period of almost six years.<sup>5</sup> Buying bonds at depressed prices can achieve equity-like returns if your thesis is correct.

<sup>4</sup> Calfrac Holdings LP, 7.5%, due 2020/12/01 was held in EdgePoint Global Growth & Income Portfolio and EdgePoint Canadian Growth & Income Portfolio.

<sup>5</sup> The IRR is for Calfrac Holdings LP, 7.5%, due 2020/12/01 held in EdgePoint Canadian Growth & Income Portfolio between June 5, 2012 and May 30, 2018. Annualized total returns, net of fees (excluding advisory fees), in C\$. As at December 31, 2025

EdgePoint Canadian Growth & Income Portfolio, Series F – Since inception (Nov. 17, 2008): 11.76%, 15-year: 9.69%, 10-year: 11.11%, 5-year: 15.04%, 3-year: 15.48%, 1-year: 14.06%, YTD: 14.06%. 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.





No one can say that our bond investment in Calfrac was without risk, but all successful investing is the result of taking risk. True investment success comes from maximizing your return while trying to minimize your risk. This credit investment was a great example of that. The riskier part of the capital structure was the equity. An equity investment over the same period as our fixed income investment could have resulted in investors losing 35% of their money.<sup>ii</sup> Equity investors saw fundamentals deteriorate and investor sentiment never returned to the levels prior to the oil downturn in 2015 and 2016. This period highlights something we have tried to take advantage of countless times – **a bad stock can be a great credit investment**. Equity owners pay our interest and must protect our rights if they want to continue being stakeholders in the company.

## Good things don't always come in threes

Calfrac continued to need capital and issued another bond in 2018 to refinance existing debt. Yet again we followed the business but chose not to participate in the new issue. The market has a short memory, but we looked at new issues with a skeptical eye. The past had shown us that Calfrac wasn't in a position of strength. It was facing a highly competitive market serving customers that were cyclical and yet it continued to rely on the good graces of the bond market to fund its business. This is one of the drawbacks of a capital-intensive business. It is challenging to de-lever as capital needs to be re-invested or your assets bleed to zero. We passed on the new issue but got intrigued when the bond fell well below par, eventually hitting distressed prices.

Our analysis was the same as in prior periods. We had conviction in the asset value and were prepared to own the business. You have to be careful what you wish for as Calfrac struggled enough that the company was forced to negotiate with bondholders. As a group with other creditors, we restructured the business. We are always willing to fight to protect our rights.

At the end of this process our unsecured bonds were converted into equity and a secured bond. I view this as a mistake. Our analysis led us to believe that our recovery rate would be higher than what we ultimately received. **No matter how rigorously we work, we can and will be wrong.**

Risk management is the foundation of our investment approach. History has shown that position sizing and diversification have helped us limit the impact of these mistakes on total portfolio returns. **Fixed income investors can diversify in less obvious ways than equity investors.** We can own multiple bonds from the same company. Calfrac is a great example of this. Our unsecured bonds were converted to equity and secured bonds. The process also included giving the lending group the opportunity to invest in a secured convertible bond that resulted in very attractive returns to our credit portfolio. Ensuring our company-level risk is properly diversified to achieve what we feel is an optimal risk-adjusted return is a large focus for us. This secured bond was just repaid at the end of 2025 capping an end to our credit investments in the business. Although I classified this as a mistake, we earned an IRR of over 9.5% on investments that we owned for over seven years.<sup>6</sup> This is another example of a fixed income investment having a pleasing return when equity holders were faced with permanent loss of capital. This is a very solid return for a business that defaults. Buying bonds that defaulted was not the mistake. **A default can be a positive investment catalyst if the bonds were purchased at the right price.** Our mistake was in our analysis of the company's asset value. Going into the investment we believed our return would have been superior to what was ultimately realized.

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<sup>6</sup>The IRR is for Calfrac Holdings LP CPP, 8.5%, due 2026/06/15 that was converted into Calfrac Holdings LP CPP, 10.875%, due 2026/03/15 and equity held in EdgePoint Canadian Growth & Income Portfolio between January 16, 2019 to December 22, 2025.

Annualized total returns, net of fees (excluding advisory fees), in C\$. As at December 31, 2025

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## Learning from the past

It's rare to have an investment that spans a large part of the last sixteen years and was present in all of our credit portfolios. I think our investment in Calfrac has many enduring lessons that help highlight our investment approach as well as how we think about portfolio management and investing in general. The key takeaways for me are:

- Identifying change is the foundation of our investment approach. It works in both equity and credit to help us find undervalued investment opportunities.
- Young analysts only see opportunity; more experienced professionals see risk first.
- Your opinion on a business can change. Selling, so that you can reevaluate with a clear mindset is often beneficial.
- You must always contrast market expectations with your own.
- The flexibility to look at both fixed income and equity investments helps us create a more resilient portfolio.
- Compounding your knowledge base is just as important as compounding capital.
- A company's asset values can often differ from what's reflected in stock and bond prices.
- Maturities are a catalyst for value realization that equity investors do not get to enjoy.
- A bad stock can be a good credit.
- We will make mistakes. Controlling the loss from these mistakes is a core part of our approach.
- Bondholders can create value and control risk in ways that are unique to their asset class. Owning different parts of the capital structure can create a customized risk and return profile for our Portfolios. We can also participate in restructurings that allow us to fight for our rights and get access to further investment opportunities.

As a new year begins it is hard to ignore headlines that forecast what will happen to different asset classes and interest rates in the future. This commentary took the opposite approach and chose to review the past. We can't control the future and don't have a skill set at predicting macro events. We stick to what we can control – how our investment approach evolves based on learnings from past investments. We don't know if interest rates will be higher or lower this time next year, but we don't need to. We need to ensure that our companies pay us back and that we continue to build diversified and resilient credit Portfolios. It is easy to get lost in the noise of new year's predictions. It's much more serene to focus on where we have an edge.

<sup>i</sup> As at December 31, 2025, Calfrac Well Services Ltd. securities were held in EdgePoint Global Growth & Income Portfolio and EdgePoint Canadian Growth & Income Portfolio. Information on the above securities is solely to illustrate the application of the EdgePoint investment approach and not intended as investment advice. It is 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. The high yield bond was held in EdgePoint Global Growth & Income Portfolio, EdgePoint Canadian Growth & Income Portfolio and EdgePoint Monthly Income Portfolio.

<sup>ii</sup> Source: Bloomberg LP. This is a hypothetical scenario assuming that an investor purchased Calfrac Wells Services Ltd. equity on June 5, 2012 and sold it on May 30, 2018. Total returns in C\$.