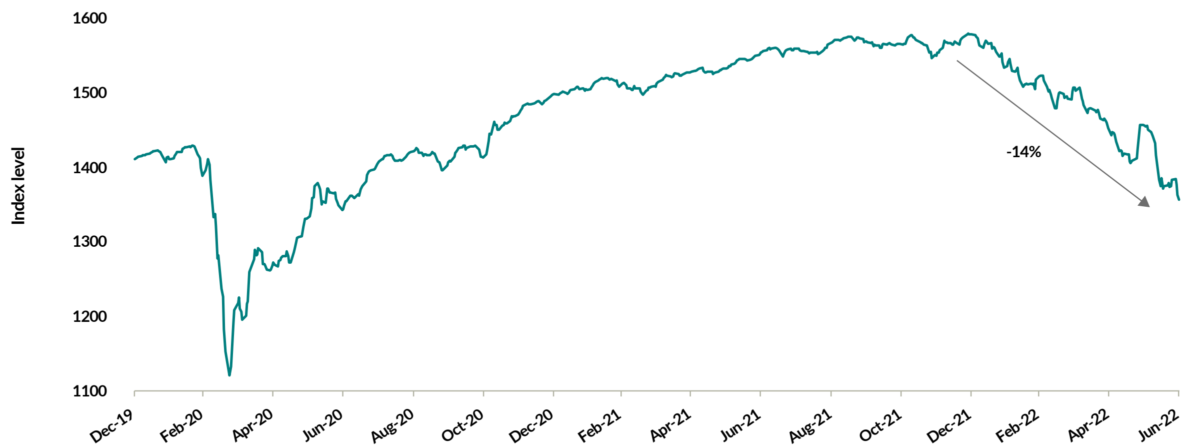
Q2 2022 letter to investors
EdgePoint Variable Income Portfolio, Series PF

COMMENTARY - WHY I CAN'T SLEEP AT NIGHT
By Derek Skomorowski

Too excited given all the opportunities!

Just kidding, I'm still getting plenty of sleep. But this market is getting real fun, real fast. That doesn't mean markets might not continue to decline from here, but with fixed income assets offering some of the best all-in returns of the past 20 years, opportunities abound. In high yield, the 14% decline so far this year has wiped out all the index gains dating back to before the COVID-19 downturn.

ICE BofA US High Yield Index
Jan. 1, 2020 to Jun. 30, 2022



Source: FactSet Research Systems Inc. In US$. The ICE BofA US High Yield Index tracks the performance of high-yield corporate debt denominated in U.S. dollars and publicly issued in the U.S. domestic market.

The 14% decline measures among the worst in high yield history.[i] Which means it's probably time to update this figure – a quick reminder that declines are a gift to anyone positioned to take advantage. We know corrections are never fun, but your EdgePoint Portfolios have been waiting a long time for some excitement and we won't let the current bout go to waste.

ICE BofA US High Yield Index declines greater than 10%
Jan. 1, 1990 to Jun. 30, 2022

Decline Decline period (peak-to-trough)	% decline	Returns following bottom after double-digit decline		
		1 year	**3 years***	**5 years***
U.S. commercial real estate crash† Aug. 1, 1990 to Nov. 9, 1990	-12%	41.65%	24.73%	18.12%
Dot.com bubble May 1, 2002 to Oct. 10, 2002	-14%	34.61%	16.86%	13.41%
2008/09 financial crisis May 20, 2008 to Dec. 12, 2008	-35%	70.93%	27.39%	20.91%
U.S. debt downgrade by S&P Jul. 26, 2011 to Oct. 4, 2011	-10%	22.20%	12.03%	8.80%
Oil price collapse May 31, 2015 to Feb. 11, 2016	-13%	26.20%	10.94%	9.88%
COVID-19 pandemic Feb. 20, 2020 to Mar. 23, 2020	-22%	34.17%	?	?
Inflation and interest rate concerns Dec. 28, 2021 to Jun. 30, 2022	-14%	?	?	?

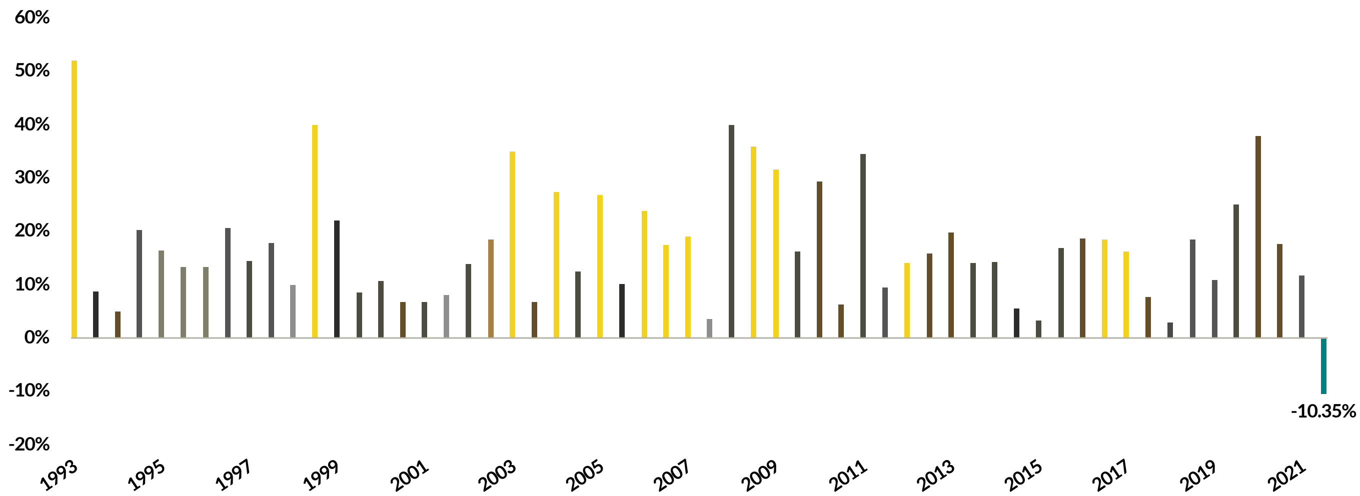
*Annualized.

Source: Bloomberg LP. Total returns in US$.

† The early 1990s U.S. commercial real estate crash is attributed to the failure of savings & loan institutions in the late 1980s to early 1990s due to inflation of those properties. Source: Geltner, David, "Commercial Real Estate and the 1990-91 Recession in the United States", Massachusetts Institute of Technology – Department of Urban Studies & Planning, MIT Center for Real Estate, January 2013. https://mitcre.mit.edu/wp-content/uploads/2013/10/Commercial_Real_Estate_and_the_1990-91_Recession_in_the_US.pdf.

Unique to this correction might be how the first five-and-a-half months were driven by fears of inflation and the skyrocketing interest rates that could result, while the last two weeks saw a consensus 180-degree U-turn to fears of recession. We have no clue which of the prognosticators will be correct, but no matter. The clairvoyant choosing the best-returning asset class so far this year would have managed no better than a -10.35% return from U.S. investment grade bonds.[ii] It's a tough time for anyone whose investment style looks a lot like an index.

Best six-month total return
Dec. 31, 1993 to Jun. 30, 2022



June 30, 2022 returns

Bloomberg US Aggregate Bond Index	-10.35%
Bloomberg Global Aggregate Index	-13.91%
Bloomberg Emerging Markets Hard Currency Aggregate Index	-17.14%
MSCI World Index	-20.51%
S&P 500 Index	-19.96%
S&P US Treasury Bond Current 30-year Index	-23.24%
S&P US Treasury Bond Current 10-Year Index	-11.48%
Bloomberg US Corporate High Yield Bond Index	-14.19%
MSCI Emerging Markets Index	-17.57%
MSCI EAFE Index	-19.57%
Russell 2000 Index	-23.43%

Source: Bloomberg LP. Total returns in US$. The chart shows the best six-month return by asset class on a quarterly basis.

The S&P U.S. Treasury Bond Current 10-Year Index tracks the most recently issued 10-Year U.S. Treasury note or bond. The Bloomberg Global Aggregate Bond Index measures investment grade, fixed-rate debt in local currency from developed and emerging market issuers. The Bloomberg US Aggregate Bond Index is a broad-based, flagship benchmark that measures the investment grade, US$-denominated, fixed-rate taxable bond market. The Bloomberg US Corporate High Yield Bond Index measures high yield (rated lower than BBB), US$-denominated fixed-rate corporate debt. The Bloomberg Emerging Markets Hard Currency Aggregate Index measures debt from hard currency emerging markets and includes US$-denominated government and corporate debt. The MSCI Emerging Markets Index measures large- and mid-cap equities from emerging markets consisting of about 85% of each country's free float-adjusted market capitalization. The MSCI World Index is a market-capitalization-weighted index comprising equity securities available in developed markets globally. The MSCI EAFE Index measures equity securities in Europe, Australasia and Far East (developed markets excluding the U.S. and Canada). The S&P 500 Index is a broad-based market-capitalization-weighted index of 500 of the largest and most widely held U.S. stocks. The Russell 2000 Index is a small-cap index that measures the 2000 smallest stocks in the Russell 3000 Index, totalling approximately 8% of the larger index. The S&P U.S. Treasury Bond Current 30-Year Index tracks the most recently issued 30-Year U.S. Treasury note or bond.

This year, avoiding risks we don't understand has paid off. Interest rates, emerging markets and complex alphabet-soup-style-structured-mortgage-what-have-you each had their share of blow-ups, and all we had to do was not kid ourselves into thinking we had insight into which dictator was going to pay his bills.

We lend money to businesses and, by-and-large, performance of the individual businesses that your money is invested in has been strong. We're buying corporate bonds issued by businesses where we think the credit quality of the business will improve over our holding period. Short-term volatility notwithstanding, if we're correct in that analysis, it shouldn't matter what "the market" does for us to earn our return. Bonds are contracts, and business profits will be used to pay interest and return our principal at maturity.

There's nothing exciting about six months of performance, but what is exciting is how quickly a poor short-term result translates into bright future prospects, assuming no blow-ups in a bond portfolio. In six short months, the go-forward returns across all of your fixed income holdings at EdgePoint have improved substantially from the start of the year. We've been saying repeatedly that the pitiful interest rates of the past few years made little sense, but the sharp rise this year has surprised even us. While there remains a very real risk that interest rates move even higher, we have slowly increased duration across Portfolios. With just an eight-month track record, the Compliance department won't let us show it, but this meaningful improvement in expected return includes the Monthly Income Portfolio.

EdgePoint Portfolio returns, yield-to-maturity and duration
Dec. 31, 2021 to Jun. 30, 2022

	Year-to-date Total returns Dec. 31, 2021 to Jun. 30, 2022
EdgePoint Variable Income Portfolio, Series PF	-1.49%
EdgePoint Global Growth & Income Portfolio (Fixed income only)	-3.32%
EdgePoint Canadian Growth & Income Portfolio (Fixed income only)	-3.12%

	December 31, 2021			June 30, 2022	
	Yield-to-maturity	Duration (years)		Yield-to-maturity	Duration (years)
EdgePoint Variable Income Portfolio	6.52%	2.94		8.45%	3.23
EdgePoint Global Growth & Income Portfolio	2.79%	2.09		5.37%	2.32
EdgePoint Canadian Growth & Income Portfolio	2.72%	2.06		4.99%	2.24

Source, yield-to-maturity and duration: Bloomberg LP. EdgePoint Variable Income Portfolio total returns in C$. EdgePoint Variable Income Portfolio is only available via prospectus exemption to qualified investors. Please see the EdgePoint Variable Income Portfolio offering memorandum for additional details. EdgePoint Growth & Income Portfolio fixed income securities total returns in local currency. EdgePoint Growth & Income Portfolios fixed-income performance figures shown for illustrative purposes only and aren't indicative of future performance. They aren't intended to represent returns of an actual fixed-income fund as they weren't investible. EdgePoint Growth & Income Portfolio fixed-income performance figures are gross of fees and approximations calculated based on end-of-day holdings data (actual trading prices not captured). Duration is a measure of a debt instrument's price sensitivity to a change in interest rates. The higher the duration, the more sensitive a bond's price is to changes in interest rates. 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.

Annualized total return, net of fees (excluding advisory fees), performance in C$ as at June 30, 2022

EdgePoint Global Growth & Income Portfolio, Series F
YTD: -10.85%; 1-year: -7.67%; 3-year: 1.94%; 5-year: 4.09%; 10-year: 10.01%; since inception (Nov. 17, 2008 to Jun. 30, 2022): 11.08%.

EdgePoint Canadian Growth & Income Portfolio, Series F
YTD: -6.61%; 1-year: -1.32%; 3-year: 8.44%; 5-year: 6.15%; 10-year: 8.93%; since inception (Nov. 17, 2008 to Jun. 30, 2022): 10.62%.

EdgePoint Variable Income Portfolio, Series PF
YTD: -1.49%; 1-year: 1.75%; 3-year: 6.72%; since inception (Mar. 16, 2018 to Jun. 30, 2022): 6.23%.

It's possible this is a short-term blip, that interest rates collapse and asset prices revert right back to the lofty levels where they started the year. If so, this was a nice opportunity to put our dry powder to work at a wholesale discount. It's been an extremely active time period for your EdgePoint Portfolios – incredibly, over 25% of the current fixed income holdings in the Variable Income Portfolio were bought in the past six months. We've also increased the high yield weight and extended duration in the Growth & Income and Monthly Income Portfolios. When it's raining gold, forget the teaspoon – bring a bucket.

It's also possible that this correction is something we haven't seen for a very long time – a dip that won't be snapping back higher anytime soon. We could be in for a drawn-out decline that lasts a period of months or years. It's been a while since stocks and bonds have had to discount higher interest rates, and assets might not like having to justify their nosebleed prices. Interest rates are to assets what gravity is to the apple, and interest rates are pulling "Gs". It's what Jim Grant of *Grant's Interest Rate Observer* calls "the value restoration project." As corporate bond investors, this is the scenario we hope for.

People look for proxies. We are desperate for proxies. It's why we study history – we want to know what to expect when paradigms change. We've often shown the following figure warning that markets aren't always rosy; when equities trade at high valuations, or fixed income investors buy long-term government bonds at very low interest rates, history suggests this is a recipe to lose money over a long period of time. It's how you run out of money before you die.

Over the past hundred years, there were three full decade-plus periods of near-zero return for the average investor holding a traditional 60/40 balanced portfolio. But what happened to low-rated corporate bonds over these periods? The results may surprise.

Growth of $1 in real terms of a traditional 60/40 balanced portfolio

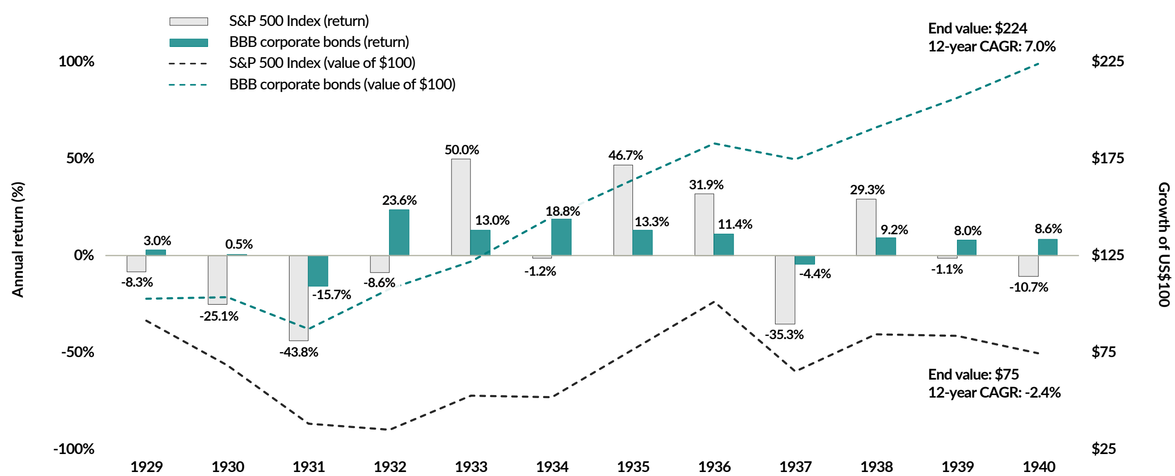
1900 to Sep. 2020

*60% U.S. equities (S&P 500 Index) and 40% U.S. bonds (J.P. Morgan Government Bond Index – United States Traded) rebalanced monthly.

Source: GMO Asset Allocation Insights, Tonight We Leave the Party Like It's 1999, November 2020. As at June 30, 2022. Source, June 2022 CAPE: Shiller PE ratio by month, Ycharts.com, https://ycharts.com/indicators/cyclically_adjusted_pe_ratio. Source, June 2022 real yield: 10-Year Treasury Constant Maturity Rate, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/DGS10. CAPE is the Cyclically adjusted price-to-earnings ratio. Real yields are 10-year U.S. Treasuries minus the 12-month trailing Consumer Price Index. The J.P. Morgan Government Bond Index – United States Traded seeks to track government bond fixed-rate issues from the United States.

The Great Crash that preceded the Great Depression is a period in market history all investors should study (John Kenneth Galbraith has a fantastic book covering the time period, available here). From its high on September 16, 1929, to the low on June 1, 1932, the S&P 500 Index lost 86% of its value,[iii] and 12 years from its high, equity investors were still underwater by more than 25%. By comparison, BBB-rated corporate bonds – the "riskiest" category at the time – delivered a return of 6.7% over the period, while experiencing a comparatively blissful maximum decline of 15.7%.

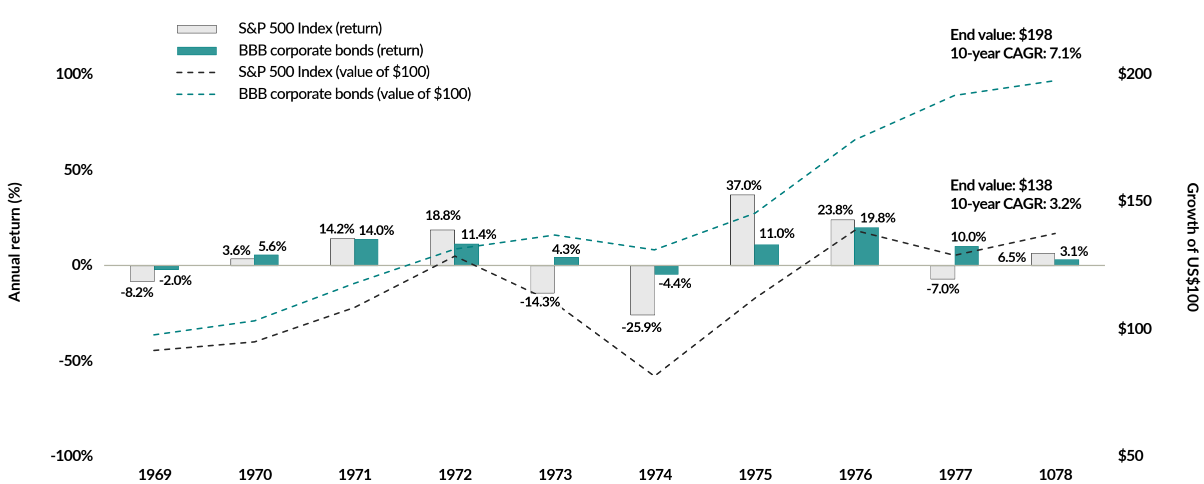
S&P 500 Index vs. BBB corporate bonds
Annual returns & growth of US$100
1929 to 1940



Source: Aswath Damodaran, "Historical Returns on Stocks, Bonds and Bills: 1928-2021", https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html. Total returns in US$. The S&P 500 Index is a broad-based market-capitalization-weighted index of 500 of the largest and most widely held U.S. stocks. BBB corporate bonds are the Federal Reserve Bank of St. Louis Moody's Seasoned Baa Corporate Bond Yield.

These days, everyone seems to be talking about the 1970s, probably because it's the last time markets had to deal with the three-headed monster of elevated inflation, high oil prices and rising interest rates. It was a volatile time for stocks; equity investors had to endure three drawdowns of more than 20% over a 12-year period, including a near -50% decline with the collapse of the "Nifty Fifty" in 1973 to 1974.[iv] In the face of multiple recessions and continuously rising interest rates, BBB-rated corporate bonds once again held their own, delivering a 7.1% return that more than doubled the return on the S&P 500 over the decade.

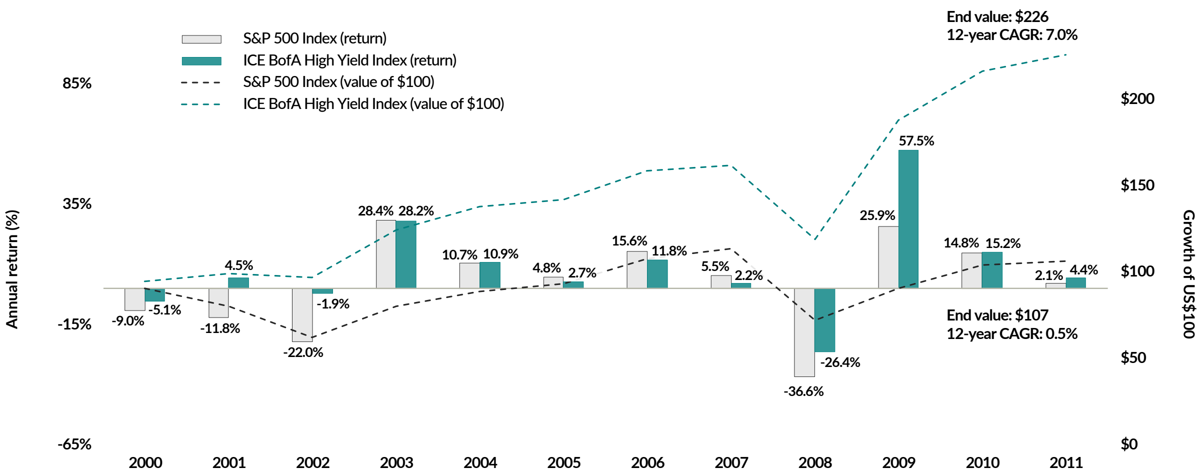
S&P 500 Index vs. BBB corporate bonds
Annual returns & growth of US$100
1969 to 1978



Source: Aswath Damodaran, "Historical Returns on Stocks, Bonds and Bills: 1928-2021", https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html. Total returns in US$.

Interestingly, 1978 was the first year that high yield bonds reached the critical mass where market observers started paying attention. With US$9.4 billion in high yield bonds outstanding at the time,[v] we can hardly blame them. It's too bad though, because high yield bonds have positively trounced any alternative through bad markets ever since. Fortunately, we do have the more recent lost decade that captures both the Tech Bubble and the Global Financial Crisis, where we can compare high yield to the S&P 500. The period included a lot of defaults and plenty of misery. Guess who won?

S&P 500 Index vs. ICE BofA US High Yield Index
Annual returns & growth of US$100
2000 to 2011



Source, S&P 500: Aswath Damodaran, "Historical Returns on Stocks, Bonds and Bills: 1928-2021", https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html. Source, ICE BofA: Bloomberg LP. In US$. Total returns in US$.

Your EdgePoint fixed income portfolios are not the market – we're paid to do much better than the market. But the market is the pool we're fishing in, and it's useful to understand how the winds might blow when the storm clouds are gathering. The whole point of owning bonds is that in markets, things get rocky. The fishing is best when you're fishing in the rain.

We don't have to worry about the big shifts in sentiment that can cause an extended drawdown in stocks, and our returns aren't as vulnerable to declines in earnings brought on by recession – bond interest payments are fixed. Time and again, average corporate bonds, as reflected by the market, have shown their mettle through good times and bad. It's my humble opinion that our bonds are far better than average. This is why the only time I'm losing sleep is when I can't wait to get back to buying more bonds.

i Source: Bloomberg LP. Total returns In US$.

ii Source: Bloomberg LP. In US$. Total returns in US$. The Bloomberg US Aggregate Bond Index is a broad-based, flagship benchmark that measures the investment grade, US$-denominated, fixed-rate taxable bond market.

iii Source: James B. Stewart, "Even the Great Depression Couldn't Keep Stocks Down", WSJ.com, October 29, 2008. https://www.wsj.com/articles/SB122523842928578209#:~:text=For%20stock%20investors%2C%20the%20headline,time%20to%20be%20holding%20stocks

iv Source: Bloomberg LP. From January 11, 1973 to October 3, 1974 the S&P 500 Index declined by 45%. Total returns in US$.

v Source: Robert A. Taggart, Jr., "The Growth of "Junk" Bond Market and Its Role in Financing Takeovers." In Mergers and Acquisitions, ed. by Alan J. Auerbach (Chicago: University of Chicago Press).

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