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*The image shows a pair of runners in Saucony Endorphin Pro 3 shoes racing through the streets of New York City. Saucony is a subsidiary of Wolverine World Wide, Inc., one of our credit holdings in the EdgePoint Portfolios. Wolverine is a global footwear and apparel company that designs, manufactures, markets and distributes a wide range of footwear. It has been in business for over 140 years and developed or acquired several brands over that time, such as the eponymous Wolverine, Hush Puppies, Merrell and Saucony. Wolverine's reputation for comfortable footwear has helped it build a loyal customer base compared to fashion-oriented footwear manufacturers. The COVID-19 pandemic resulted in a spike in sales, but we believe it will continue to grow its market share despite normalizing demand.*

As at March 31, 2025, Wolverine World Wide, Inc. securities were held in EdgePoint Canadian Growth & Income Portfolio, EdgePoint Global Growth & Income Portfolio and EdgePoint Monthly & Income Portfolio. Information on the above companies' securities is not intended as investment advice. 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 no guarantee of future results.

*Photo credit*

Wolverine World Wide, Inc.



## Q1 2025 Credit commentary

### THE ART OF PORTFOLIO MANAGING (EXPECTATIONS)

By Frank Mullen

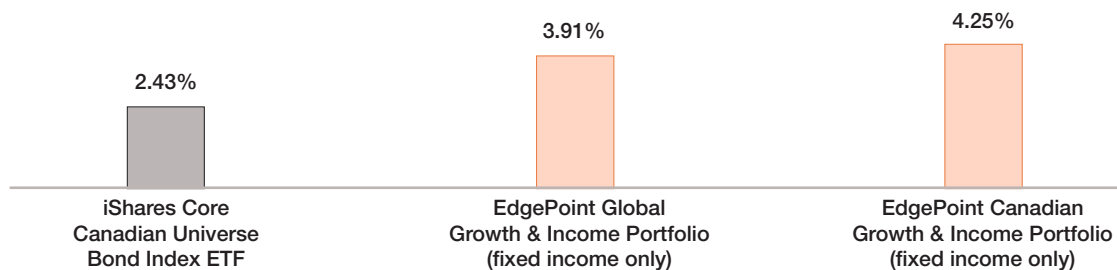
The most common question I usually receive from advisors is some variation of “What returns can I expect from the credit Portfolios?” Some believe that the mathematical nature of fixed income allows us to conjure a certain return in a very uncertain world. In reality, the perceived “precision” that comes from a stated yield-to-maturity (YTM) for a bond or portfolio is misplaced. If it were truly predictable, the rate would be no higher than its risk-free counterpart and there would be no need for myself or the rest of the EdgePoint Investment Team.

Clients often ask the question about expected returns as they think it will help them time the market, buying only when yields are high. The current price and the resulting yield certainly influence your future return but they can be poor signals. Relying on false and misplaced precision often leads to investors outsmarting themselves and missing future opportunities that can’t be forecasted or predicted.

Investors could be wildly disappointed if they believe that the future return of their fixed-income portfolio is simply the YTM at the time of purchase. Here’s an example to illustrate how actual returns can deviate. Going back to the start of 2020, let’s compare the yield of the investment-grade opportunity set at the time (represented by a commonly used benchmark showing a broad mix of both government and corporate bonds) and the fixed-income portion of our EdgePoint Growth & Income Portfolios:

#### EdgePoint Growth & Income Portfolios vs. investment-grade ETF – YTM (local currency)

As at Jan. 1, 2020



Source: Bloomberg LP. As at January 1, 2020. See *Important information – Benchmarks and indexes* for additional details.

Think back to that time. Most of us hadn’t even heard of COVID-19 yet and would never have been able to predict the capital market’s rollercoaster ride that came over the next five years. Portfolios had to contend with inflation for the first time in years, supply-chain disruptions, the start of kinetic wars in Europe and the Middle East, trade wars, an explosion of A.I./potential technological disruptions and shifting political winds across the globe. While this list certainly isn’t exhaustive, it does highlight how quickly things can change and how your portfolio must be ready to adapt to these changes.

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. 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. While not our benchmark, the iShares Core Canadian Universe Bond Index ETF is a commonly used representative of investment-grade markets. We manage our Portfolios independently of the indexes we use as long-term performance comparisons. Differences including security holdings and geographic/sector allocations may impact comparability and could result in periods when our performance differs materially from the index. Additional factors such as credit quality, issuer type and yield may impact fixed income comparability from the index.

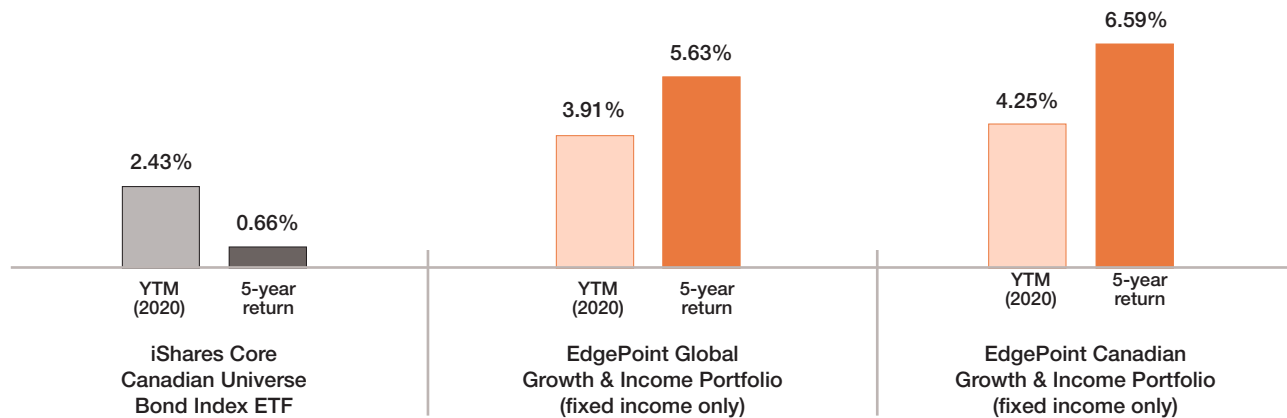
Portfolio performance as at March 31, 2025. Annualized total returns, net of fees (excluding advisory fees), in C\$.	Since EdgePoint inception*	15-year	10-year	5-year	3-year	1-year	YTD
EdgePoint Global Growth & Income Portfolio, Series F	11.21%	9.66%	7.28%	11.73%	8.24%	6.98%	2.12%
EdgePoint Canadian Growth & Income Portfolio, Series F	11.47%	9.31%	9.05%	18.53%	11.10%	10.66%	0.61%
iShares Core Canadian Universe Bond Index ETF	3.33%	2.96%	1.61%	1.10%	2.41%	7.40%	1.93%

\* EdgePoint Global Growth & Income Portfolio (Nov. 17, 2008), EdgePoint Canadian Growth & Income Portfolio (Nov. 17, 2008).



An index doesn't adapt. It has a set of rules that it lives by regardless of the environment around it. Some would tout its rules-based framework as a selling feature but I would argue that it's a bug. It's a bug because you can do better. Unlike an index, you can take advantage of the volatility that's created during these periods, choosing to invest when you think the market is trading more on emotions than fundamentals. Look at how well those YTM's predicted their returns five years later:

**EdgePoint Growth & Income Portfolios vs. investment-grade ETF – YTM (Jan. 2020) and 5-year return (both in local currency)**  
As at Jan. 1, 2025



**Hypothetical returns for fixed income only. They are not investible.**  
**They're a best-estimate of EdgePoint Growth & Income Portfolios' fixed-income performance.**

Source: Bloomberg LP. As at January 1, 2025. Returns shown for illustrative purposes only and aren't indicative of future performance. The EdgePoint Growth & Income Portfolio fixed income returns are in local currency, net of fees and approximations calculated based on end-of-day holdings data (actual trading prices not captured). See *Important information – Benchmarks and indexes and Important information – EdgePoint Growth & Income Portfolio fixed income returns* for additional details.

Although I think those numbers are the ultimate sales pitch for active management, this commentary is more about forecasting future returns. In all cases, the YTM didn't do an excellent job predicting the future 5-year performance. Our Portfolios materially outperformed by adapting to the changes in the market and using the volatility to our advantage. The indexes or those who chose to hug them didn't have the same success.

So how should you think about future returns? It starts by defining the measurement timeframe. In my opinion, predicting future returns in several months or even several years is a mug's game. You need to give yourself time to earn coupons and realize the price changes that can happen as bonds get closer to maturity. I previously highlighted the five-year performance for a reason, as I believe it's a suitable timeframe to both set return expectations and judge a manager's performance. When thinking about future return expectations you need to make sure they're consistent with the investment approach and give the manager enough time to surface value. We believe five years is a good starting place for our approach because it gives us enough time to develop a differentiated view on a bond and see the thesis play out.

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. 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. While not our benchmark, the iShares Core Canadian Universe Bond Index ETF is a commonly used representative of investment-grade markets. We manage our Portfolios independently of the indexes we use as long-term performance comparisons. Differences including security holdings and geographic/sector allocations may impact comparability and could result in periods when our performance differs materially from the index. Additional factors such as credit quality, issuer type and yield may impact fixed income comparability from the index.

Portfolio performance as at March 31, 2025. Annualized total returns, net of fees (excluding advisory fees), in C\$.	Since EdgePoint inception*	15-year	10-year	5-year	3-year	1-year	YTD
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\* EdgePoint Global Growth & Income Portfolio (Nov. 17, 2008), EdgePoint Canadian Growth & Income Portfolio (Nov. 17, 2008).



## The income is fixed, the price and your returns aren't

Volatility often drives down the price of bonds to below par. Our investment approach favours these situations for their potential yield and the capital gains that occur as bonds appreciate to par at maturity. The latter is a critical point to focus on – bond prices do change. While not as volatile as equities, the prices of bonds move based on a variety of factors, including the fundamentals of the debtor, macroeconomic conditions and general market sentiment. You should welcome this change. It's the changing of prices that allows us to outperform a static basket of bonds as we scour the globe looking for opportunities. There's no way to predict how or when these opportunities will arise, but you need to have confidence that we have a process and a structure to find and capitalize on them. Our 16-year track record is testament to that.

I reviewed the portfolio activity for the fixed-income portion of the EdgePoint Growth & Income Portfolios. Their fixed-income returns over the last five years came from a diverse set of companies behind those bonds.<sup>i</sup> The contribution to the portfolio's performance was diverse. We didn't make one large bet and hope to get it correct. Top return contributions came from:

- Energy companies like Vesta and Calfrac
- Retailers like Alcanna, Bath & Body Works, AutoCanada, and QVC Group
- Industrial businesses like Cleaver Brooks
- Consumer-facing businesses like Cineplex, Dave & Busters and Lindblad Expeditions
- Healthcare businesses like DRI and Embecta
- Chemical companies like Chemours

*See Important information – Portfolio companies for additional details.*

The list could be longer, but I hope you feel confident that your credit Portfolios are diversified.

We're business analysts who aim to find unique opportunities where we believe the market is mispricing risk. These ideas are well researched based on our deep-dive fundamental approach and weighted appropriately in your Portfolios. The world is a complex place and we will not always be right, so diversification is crucial to our process. When I review the list of contributors over the last five years, I'm pleased with the broad sources of performance. Over that five-year period, the fixed income portion of EdgePoint Growth & Income Portfolios each held debt from about 175 issuers.<sup>ii</sup>

In January 2020, we couldn't have predicted many of the catalysts that made these investments actionable. Embecta hadn't been spun out of Becton Dickinson yet and didn't exist in its current form. Management teams at energy companies were just starting to find religion, improving their balance sheet and making the sector more investible. COVID-19 hadn't yet shut down industries that needed debt to make it through the pandemic like Cineplex or Dave & Busters. How do you incorporate events like this into future return prospects? You can't, but you can ensure that you're partnered with an investment firm like EdgePoint that has a track record and a process for capitalizing on these events.

## A different kind of diversity

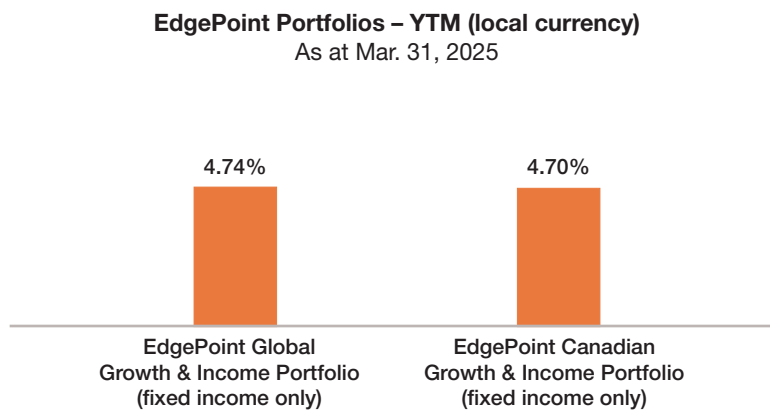
My other observation from that data is the diversity in style or structure of the investments. We have a lengthy list of bonds, loans, convertibles and even preferred shares. Some are rated high yield while others are investment grade, and we often find value in unrated bonds. A flexible mandate is a huge asset for investors. Flexibility allows an investor to focus on where they're finding the best opportunities and not to be forced into an overfished pond. It should be no surprise that many of our contributors were high-yield debt, but I bet most clients wouldn't guess that one of our top contributors to the Growth & Income Portfolios was an investment-grade bond. Convertible bonds were also a significant contributor and fit very well with our investment approach, while several preferred shares also generated strong returns.



Our primary skill set is analyzing businesses and identifying why investors are overestimating their risk. Using an approach that's grounded in fundamental analysis, we aim to identify fixed-income investments that overpay us for their credit risk. When we identify an interesting business, our next step is to find the most attractive place in the capital structure to help capitalize on our view. Many companies have different debt instruments outstanding, and we have a distinct skill set of finding the security that we believe has the best risk/reward and can best complement the existing securities in the portfolio. Equity market volatility may lead to the convertible bond market providing the best opportunity set. Rising rates could put more pressure on bonds over loans, while idiosyncrasies in a company's capital structure could drive deviations in one security relative to another. We can't predict when one of these events will happen, but we can be prepared to take advantage of them when they do.

## But...what returns can you expect from the credit Portfolios?

I have gotten this far without actually answering the opening question. What are our return expectations for the fixed-income portfolios? While I have already explained why the current YTM can be a wildly inaccurate predictor, it's a good place to start. Take a look at the YTM on our Portfolios today:



The only prediction I can make about our future 5-year returns is that the odds of their returns matching today's YTM are extremely low. Investing is centred on making a decision based on imperfect information. I believe that thinking probabilistically about future scenarios can help you make better decisions. In a world of three simple outcomes (matching, beating or returning less than our YTM), I think the odds are skewed. Our investment approach, structure and track record shift the results in our favour by allowing us to capitalize on opportunities that we can't predict today but we believe have a high likelihood of occurring over the next five years. Similar to how we beat our YTM from 2020 to 2025, I believe we're well positioned to do the same out to 2030. My confidence stems from how we're positioned today and from the drivers of increased volatility.

The cash weights in all of our Portfolios are well above our historic average. My partner Derek wrote a great commentary, which you can read [here](#), about how we view cash. While not making a market call, we chose not to invest in many of the refinancing opportunities that have occurred with our recent holdings. We had confidence in the debt, but we didn't like the pricing. Rather than competing with perennially optimistic investors, we chose to wait given our belief that pricing could improve over time. That has made for both growing cash levels and a growing watch list of investible ideas. If the volatility that we have seen recently continues, we've got plenty of dry powder to put to work. This last quarter has led to a material amount of activity and we're excited about the improving future opportunity set.

Portfolio performance as at March 31, 2025. Annualized total returns, net of fees (excluding advisory fees), in C\$.

	Since EdgePoint inception*	15-year	10-year	5-year	3-year	1-year	YTD
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All you have to do is turn on the TV or open the paper to see why I'm confident that volatility will present future opportunities. The world looks to be undergoing large shifts that are bound to represent risks to some businesses and opportunities for others. The equity market has been quick to react but volatility is just starting to show up in credit markets. Do you have the conviction to bet that the next five years will be uneventful? I certainly don't. Your portfolio should welcome more volatile times, as our Portfolios certainly do.

Certainty is rare in investing but the one area where I'm confident is our likelihood of making mistakes over the next five years. We have had our fair share of mistakes in the past and I am confident we will make more in the future. Not every decision we make will be additive to our returns, and our mistakes will detract from our future performance. I sleep well at night knowing that our decision making is grounded in a time-tested investment approach and our track record since inception illustrates a repeatable approach to risk management and minimizing our mistakes. Know that while we can't responsibly eliminate all mistakes, we are aligned with you in our outlook and have substantial amounts of our personal capital invested alongside you. Our long-term track record includes our past mistakes and we feel confident that our future returns will continue to have significantly more winners than losing investments.

### **An optimistic prediction**

Using the current YTM of our Portfolios as a market-timing tool and a predictor of future returns hasn't worked well in the past, and we see no reason why it would do so in the future. Over an appropriate amount of time, we have been able to add value in excess of the yield and our current positioning puts us in a prime position to take advantage of the increased volatility that we've been seeing. While we cannot predict what the market will do over the next five years, the odds are on our side that the market will experience bouts of volatility and we're confident in our ability to take advantage of it. I have confidence that our five-year return can beat the current YTM on the Portfolios and I think the indexes will struggle to do the same.

We're fortunate to have a lengthy list of clients committed for the long term in our fixed-income Portfolios. We don't know how to time the market within our Portfolios, and we have yet to see clients try to market time when investing in them. Those who have done best tend to mirror our approach of investing with a five-year view and adding during periods of downward volatility. We think the next five years look bright and welcome the increasing opportunity set that the market is bringing our way.



### Important information – Benchmarks and indexes

All of the proxy ETFs were chosen for comparison because they are representative of the investment-grade and high-yield securities held within the EdgePoint Portfolios. An ETF that tracks an index is subject to tracking error where its holdings and return differ from the underlying index. Factors such as fees and transaction costs may affect the ETF's ability to fully replicate the index's constituent holdings. We manage our Portfolios independently of the indexes we use as long-term performance comparisons. Differences including credit quality, issuer type and yield may impact fixed income comparability and could result in periods when our performance differs materially from the index. Additional factors such as security holdings and geographic/sector allocations may impact comparability from the index.

iShares Core Canadian Universe Bond Index ETF – an ETF that seeks to replicate the FTSE Canada Universe Bond Index, which tracks the performance of investment-grade debt denominated in Canadian dollars and issued by Canadian government and corporations. The ETF returns are net of fees and based on market prices. As at March 31, 2025, the management expense ratio for the ETF is 0.10%.

### Important information – EdgePoint Growth & Income Portfolio fixed income returns

The EdgePoint Global Growth & Income Portfolio (EPGIP) and EdgePoint Canadian Growth & Income Portfolio (EPCIP) fixed income returns are hypothetical, local currency and net of fee approximations calculated based on end-of-day holdings data (actual trading prices not captured). A hypothetical management expense ratio (MER) of 0.62% was applied to EPGIP and EPCIP fixed income returns and prorated daily. The fixed income MER was calculated based on the average MER for EPGIP and EPCIP (0.84% and 0.85%, respectively), relative to the EdgePoint Global and Canadian Portfolios' MER (0.97%), then scaled to reflect the average fixed income weight of EPGIP and EPCIP (35%).

### Important information – Portfolio companies

As at March 31, 2025, securities issued by the following companies were held in EdgePoint Portfolios and/or Cymbria – AutoCanada (EdgePoint Global Growth & Income Portfolio, EdgePoint Canadian Growth & Income Portfolio, EdgePoint Monthly Income Portfolio, EdgePoint Canadian Portfolio and Cymbria); Lindblad Expeditions Holdings, Inc., Embecta Corp. and The Chemours Co. (EdgePoint Global Growth & Income Portfolio, EdgePoint Canadian Growth & Income Portfolio and EdgePoint Monthly Income Portfolio); Calfrac Well Services Ltd. and DRI Healthcare Trust (EdgePoint Global Growth & Income Portfolio and EdgePoint Canadian Growth & Income Portfolio). Vesta Energy Ltd., Alcanna Inc., Bath & Body Works, Inc., QVC Group, Cleaver-Brooks, Inc. Cineplex Inc. and Dave & Busters Entertainment, Inc. securities were no longer held in an EdgePoint Portfolio or Cymbria. Information on the above companies' securities is not intended as investment advice. 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 no guarantee of future results.

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<sup>i</sup> As March 31, 2025.

<sup>ii</sup> The period is March 31, 2020 to March 31, 2025.

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. Please read the prospectus and Fund Facts before investing. Copies are available from your financial advisor or at [www.edgepointwealth.com](http://www.edgepointwealth.com). Unless otherwise indicated, rates of return for periods greater than one year are historical annual compound total returns net of fees including changes in unit value and reinvestment of all distributions, and do not take into account any sales, redemption, distribution or optional charges, or income taxes payable by any securityholder, which would have reduced returns. Mutual funds or investment funds are not guaranteed, their values change frequently and past performance may not be repeated. This is not an offer to purchase. Mutual funds can only be purchased through a registered dealer and are available only in those jurisdictions where they may be lawfully offered for sale. This document is not intended to provide legal, accounting, tax or specific investment advice. Information contained in this document was obtained from sources believed to be reliable; however, EdgePoint does not assume any responsibility for losses, whether direct, special or consequential, that arise out of the use of this information. Portfolio holdings are subject to change. EdgePoint Portfolios are managed by EdgePoint Investment Group Inc., a related party of EdgePoint Wealth Management Inc. EdgePoint® and Business Owners Lending to Businesses™ are registered trademarks of EdgePoint Investment Group Inc.

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