

The EdgePoint Investment Approach

We are long-term investors in businesses. We view a stock as an ownership interest in a high-quality business and we endeavour to acquire these ownership stakes at prices below our assessment of their true worth.

We believe that the best way to buy a business at an attractive price is to have an idea about the business that is not widely shared by others – what we refer to as a *proprietary insight*.

We strive to develop proprietary insights around businesses we understand. We focus on companies that have strong competitive positions and defensible barriers to entry, strong long-term growth prospects, and are run by trustworthy and competent management teams. These holdings generally reflect our views looking out more than three years. We firmly believe that focusing on longer time periods enables us to develop proprietary views that are not reflected in the current stock price.

Our approach is deceptively simple. We buy good, undervalued businesses and hold them until the market fully recognizes their potential. Following this approach requires an ability to think independently, a natural curiosity necessary to search out new ideas, and a commitment to embrace the thorough research that is required to uncover opportunities the market doesn't fully appreciate.

How do we come up with ideas?

We do the research you would expect us to do. We often follow companies for years before investing. We study financial statements, interact regularly with different levels of the company's management team, perform competitive industry analysis, attend industry specific conferences, consult with industry experts, and read volumes of information about the company, its competitors, and the industry in which it competes. At times, we are able to connect various pieces of this information into an idea that is generally not understood by others.

What is our investment time horizon?

We are long-term investors in businesses. Generally, our investments reflect our view of a company's prospects looking out more than three years. Focusing on longer periods of time enables us to develop unique views that are often not reflected in the current stock prices of the businesses we are studying. Fortunately, most market participants focus on the short term: what has just happened, what's currently happening, and what is about to happen. This difference provides an opportunity for EdgePoint to add value.

How do we blend conviction with caution in building a portfolio?

We invest with conviction, and as a result, our portfolios are concentrated in our best ideas. This concentration allows individual portfolio holdings to have a meaningful impact on returns when the market recognizes our estimate of their values.

Investment approach

- Bottom-up research
- Ownership stake in a business
- Develops a proprietary view around each investment idea
- Combination of value and growth characteristics

Value or Growth?

We only invest in an idea when we can buy an interest in a business below our assessment of its true worth. By definition therefore, we are considered "value" investors. However, in addition to value, we want businesses that are capable of growing their value over time. This, by definition, makes us "growth" investors. At EdgePoint, we want to buy "growth" companies at "value" prices.

Characteristics

- Go-anywhere, all-cap products
- Concentrated portfolios
- Diversified by business idea
- Prudent approach to risk management

Our Definition of Success

- Achieving investment results that are at or near the top of our peer group over a 10-year time frame
- Remaining an investment-led organization that has strong relationships with our investment partners (investors and their advisors)
- Maintaining a culture that

Furthermore, this allows us to have more in-depth knowledge about the companies we own. Thoroughly understanding a company helps to reduce the potential risk of an investment.

Although the portfolios are concentrated, they are diversified by business idea. Each investment is based on a proprietary idea that is well researched. The investment managers go to great lengths to ensure that the collection of businesses in the portfolios is not based on the same or similar ideas. As a result, the portfolios are concentrated yet properly diversified.

How do we approach risk?

Investment success is often defined exclusively by investment returns. When we make an investment, however, we weigh the risk of that investment versus its potential return. We believe that most investors tend to focus exclusively on returns, and neglect to ask what kind of risk was taken to achieve the return.

We believe that risk in the investment business is the potential for permanent loss of capital. We have an old fashion view of risk which is “How much money can we lose, and what is the probability of that loss?” Most of our thinking around risk is focused on company-specific risk such as increased competition, management competence, profitability compression, and the underlying valuation of the business relative to our assessment of its true worth. Noticeably absent from our definition of risk is volatility of a company’s share price relative to the market. We do not believe volatility is risk.

Do we employ currency hedges?

We make use of currency hedges. When we make investments in foreign-denominated currencies, we recognize that Canadian investors are exposed to currency volatility. While we believe that, over the long-term, currency gains and losses tend to net out, the impact of currency on overall returns can be meaningful over shorter-time periods.

Equity exposure: If we believe the Canadian dollar is undervalued relative to a particular currency in which we have an exposure, we will hedge a portion or all of our exposure to that particular currency. There are certain geographic locations, such as emerging markets, where we will generally maintain larger currency hedges due to the risks inherent with investing in those regions.

Fixed-income exposure: We will hedge all of our foreign-dollar fixed-income exposure.

When do we sell a business?

We generally sell a security for one of two reasons. First, our thesis about the business is deemed to be no longer valid. If we can no longer stand behind our thesis, we can no longer stand behind an ownership interest in the business, and the position is sold. Second, there is a constant culling process whereby we continuously strive to upgrade the quality of the portfolio with better ideas. For example, if one of our ideas becomes well recognized and this is reflected in the share price of the investment, it is removed in favour of a more attractive opportunity.