Fixed-income investing: How is EdgePoint different?

By Frank Mullen, portfolio manager

We approach fixed-income investing in the same way we do equity investing. We're long-term investors who seek to acquire ownership stakes in quality businesses at prices below our assessment of their true worth. On the fixed-income side, we look for securities that provide us with an attractive return through coupon payments and capital appreciation while focusing on the borrower's (bond issuer's) ability to meet its debt obligations through the payment of periodic coupons and the return of the original principal at maturity.

Typically, fixed-income managers tend to manage to the index and don't deviate materially from duration, sector or credit ratings. At EdgePoint, we have the ability to look different and have shown that we aren't afraid to look different. While we're aware of the index, we don't let it influence our investment approach.

Our ability to look different

EdgePoint's Growth & Income Portfolios have broad mandates that allow us to invest where we see the best potential return. We can increase or decrease the allocation to equities or bonds as opportunities present themselves and we aren't forced to overweight an asset class we find unattractive. Our fixed-income allocations can generally vary from 25% to 60%. We have the flexibility to invest in both investment-grade and high-yield bonds.

Our ability to invest across the corporate structure

We can invest in all forms of corporate debt including senior secured bonds, subordinated debentures and convertibles – structure will never limit our investment ability. Sovereign governments, provincials and asset-backed securities are also available to us if the opportunity arises. We're more confident in our ability to analyze the credit of a business or government than trying to predict interest rate movements or the shape of the yield curve.

Our approach to risk management

Here's a quick summary of how we manage risk:

- It's our job to ensure we're appropriately compensated for any risk we take. In situations where we feel the risk/reward trade-off isn't favourable, we don't invest
- We don't rely on credit rating agencies and always perform our own credit research
- We don't make predictions on future interest rates, nor do we trade based on the potential future shape of the yield curve. Rather, we follow a more simplified approach and ask ourselves if we're being compensated for the additional interest rate risk inherent in long-term bonds
- We always hedge the currency of our non-C$ denominated bonds

Our top priority is capital preservation. No investment is worthwhile if the underlying fundamentals of the business aren't solid and don't offer an attractive risk/reward potential. We also avoid investments we don't fully understand.

Leveraging equity research

Our equity research helps to uncover lesser-known stories and undervalued fixed-income issues. Many of the bonds we own were issued by companies whose equity we also hold. In making investment selections, we can decide between equity, fixed-income or a combination of the two.

The EdgePoint advantage

EdgePoint's Growth & Income Portfolios are the ultimate go-anywhere investment vehicles. We scour the world looking for attractive debt and equity investments, and allocate capital to either asset class depending on where we see the best potential return opportunities.

EdgePoint Global Growth & Income Portfolio – Seeks to provide long-term capital appreciation and income generation by investing primarily in global equity and fixed-income securities. Our team of portfolio managers looks for companies with strong competitive positions, defendable barriers to entry, long-term growth prospects and competent management teams, and acquires ownership stakes in these companies at prices below its assessment of their true value.

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