The EdgePoint way to invest

We're long-term investors in businesses. We view a stock as an ownership interest in a company and 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 isn't 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 with strong competitive positions, defendable barriers to entry and long-term growth prospects that are run by competent management teams. These holdings generally reflect our views looking out more than five years. We firmly believe that focusing on longer periods enables us to develop proprietary views that aren't 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 required to uncover opportunities the market doesn't fully appreciate.

How do we come up with ideas?

We do the research you'd expect us to do. We often follow a company 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're able to connect various pieces of such information into an idea generally not understood by others.

Investment approach

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

Value or Growth?

We invest in an idea only when we can buy an interest in a business below our assessment of its true worth. By definition we're considered "value" investors. However, in addition to value, we want businesses 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 at or near the top of our peer group over a 10-year timeframe
- Remaining an investment-led organization that has strong relationships with our investment partners (investors and their advisors)
- Maintaining a company culture that inspires our employees to think and act like owners

What's our investment horizon?

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

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

We invest with conviction. 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 value. This also allows us to have more in-depth knowledge about the companies we own. Thoroughly understanding a company helps to reduce an investment's potential risk.

Although our portfolios are concentrated, they're diversified by business idea. Each investment is based on a well-researched proprietary idea. Our investment managers go to great lengths to ensure that the collection of businesses in the portfolios isn't based on the same or similar ideas. Thus, our portfolios – while concentrated – are properly diversified.

How do we approach risk?

Investment success is often defined exclusively by investment returns. However, when we invest, we weigh the risk of that investment against its potential return. We believe that most investors focus exclusively on returns and neglect to ask what kind of risk was taken to achieve those returns.

We believe that risk in the investment business is the potential for permanent loss of capital. We take an old-fashioned view of risk summed up in the questions, "How much money can we lose and what's the probability of that loss?" Much of our thinking around risk focuses on company-specific factors such as increased competition, management competence, profitability compression and the business's underlying valuation 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 don't believe volatility is risk.

When do we sell a business?

We generally sell a business for one of two reasons. First, if our thesis about the company is deemed 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 we'll sell the position. Second, there's a constant culling process whereby we continuously strive to upgrade the quality of our portfolios with better ideas. For example, if one of our ideas becomes well recognized and this is reflected in its share price, it's removed in favour of a more attractive opportunity.