

July 2, 2013

*"I've seen more stocks go to zero than to infinity."* – Jim Chanos<sup>1</sup>

Dear partners and friends,

### Investment Update

The Ewing Morris Opportunities Fund is currently invested in twenty-seven (sixteen long, eleven short) understandable and largely unrelated businesses. As of June 30, 2013 the Partnership has returned approximately 22% net of all fees and expenses, since inception on September 9, 2011. The Fund is positioned with 71% net exposure and we are predominantly invested in Canada.

### Commentary

When you short sell, the investment adage of "buy low, sell high" is inverted: *sell high, then buy low*. Short sellers make money by borrowing stocks to sell with the expectation the stock price will fall. If the stock drops, short sellers can buy it back at a lower price and return it to the lender. There are three common short selling strategies:

1. ***Short expensive stocks that trade at high multiples of their earnings.*** Companies like Amazon, Netflix and Facebook sell at very high multiples because investors are optimistic about future growth. That optimism may prove to be irrational but experience teaches that "the market can stay irrational longer than you can stay solvent." We are not aware of any successful short seller that follows this strategy.
2. ***Short fraudulent companies.*** We don't actively seek to short frauds for two reasons. First, we are not forensic accountants; there are others who can do this job better than us. Second, we subscribe to another wise saying: "Never wrestle with a pig. You'll both get dirty but only the pig will enjoy it." Life is too short to spend time fighting with crooks.
3. ***Short "Broken Businesses".*** Familiar examples include Blockbuster Video, newspapers and telephone directories. These businesses are frequently run by honest, capable managers. However, a change in technology has permanently disadvantaged their business model and the company is fated to decline. Shorting Broken Businesses is the fourth play in the [Ewing Morris Playbook](#).

When studying businesses we spend most of our time researching answers to the question "What can go wrong?" If the answer is "almost nothing" the business becomes a candidate for a Great Business investment. However, if there are many potential answers, the business becomes a candidate for shorting.

An example of a Broken Business play is our successful short sale of VeriFone Systems. VeriFone is one of two global leaders in the manufacture of point-of-sale terminals, the devices into which you insert your credit card at retailers and restaurants. Hardware manufacturers typically sell their

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<sup>1</sup> [http://en.wikipedia.org/wiki/James\\_Chanos](http://en.wikipedia.org/wiki/James_Chanos)

products about 25% above cost but VeriFone has historically had mark-ups of more than 50% because of limited competition. The devices you are familiar with routinely cost more than a thousand dollars! However, it has become possible to transform an iPhone into a credit card terminal. This change has caused VeriFone to lose sales and lower its prices; which has led to rapidly declining profits. We shorted VeriFone in December 2012 at \$31 per share and following weak quarterly results announced in late February, covered our position at \$21.

Our short positions are intended to make money regardless of the broader market's direction. However, they also provide two additional benefits:

1. In a broad market sell-off like 2008, our short positions provide downside protection for the rest of our portfolio.
2. The study of "Broken Businesses" improves our ability to recognize and avoid risks that could lead to losses on our traditional long investments.

At Ewing Morris, our expertise is analyzing the economics and competitive position of a business. While we normally use this expertise to seek undervalued companies, the framework is equally applicable to uncovering short candidates. Short selling is a relatively small (15% of assets currently) but important part of our investment approach.

### Miscellaneous

Building a great company is a team effort and we were reminded at our recent [Advisory Board](#) meeting how lucky we are to be working with the group of investors, advisors, coaches and mentors that help guide us.

We will be hosting our second Limited Partners' Day on September 13, 2013 and look forward to seeing you there. Deana will be sending out further information regarding time and location soon.

If you have any questions at all please let us know.

Cordially,

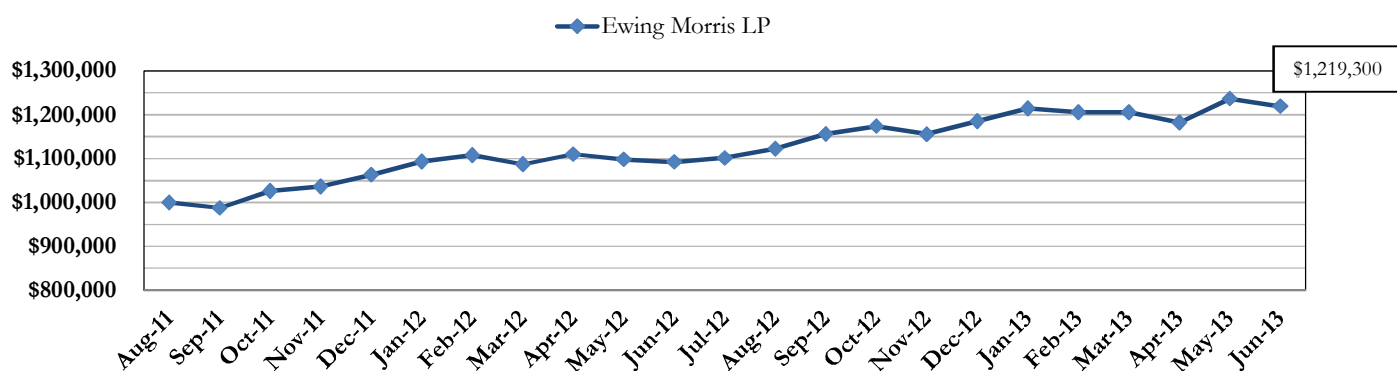


John Ewing  
Co-Founder



Darcy Morris  
Co-Founder

Growth of \$1 million invested since inception\* as of June 30, 2013



\*September 11, 2011

**About the Ewing Morris Opportunities Fund LP:**

The Ewing Morris Opportunities Fund LP was established by John Ewing and Darcy Morris in September 2011 to achieve preservation and growth of capital through superior securities selection. The Partnership invests in securities that are inefficiently priced based on a number of factors. The Partnership is focused on North American-based small-capitalization companies.

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*This letter does not constitute an offer to sell or the solicitation of an offer to buy any interest in the Ewing Morris Opportunities Fund LP. Such an offer to sell or solicitation of an offer to buy interests may only be made by way of a definitive subscription agreement and are only available to investors who meet legal requirements for investor suitability and sophistication.*