

November 1, 2012

“Pride goes before destruction, a haughty spirit before a fall.” – Proverbs 16:18

Dear partners and friends,

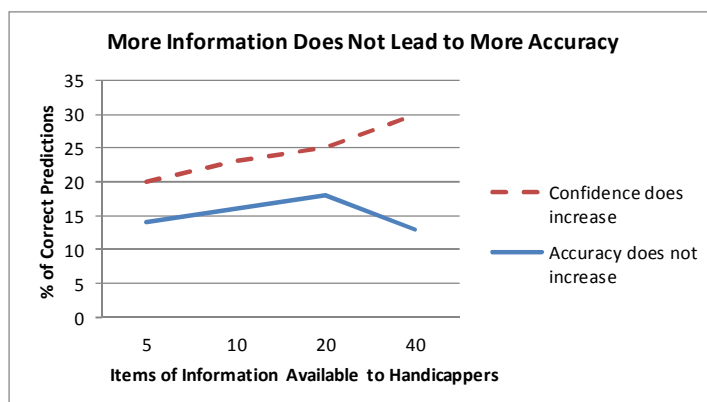
Investment Update

The Ewing Morris Opportunities Fund is currently invested in twenty-four (fourteen long, ten short) understandable and largely unrelated businesses. As of October 31, 2012 the Partnership has returned approximately 17.5%, net of all fees and expenses, since inception on September 9, 2011. The net return to individual portfolios will be different from the since inception number depending on when one joined the Partnership.

Commentary

It is widely assumed among investment professionals that interviewing management is an important component of the investment process. Indeed, at Ewing Morris we consider management meetings to be an integral part of our analysis. However, it is not widely acknowledged that management interviews can lead to flawed analysis if not undertaken with clear guidelines. An important study¹ of horse-race handicappers helps reveal why.

In sports betting, the practice of assigning probabilities to the chance of different contestants winning is called handicapping. The horse-race handicappers in this particular study were asked to make race predictions based on just five pieces of information. They were also asked to assess their confidence in the accuracy of their predictions. The process was then repeated with ten, twenty and forty pieces of information. The results showed that more information did not lead to improved accuracy but, more importantly, confidence in their own analytical ability increased dramatically.



This study reveals two important lessons for investors. First, it is important to know which “five pieces” of information are required to make an accurate prediction. Second, it is important to avoid seeking **excessive information that won’t help with decision-making but will contribute to overconfidence**. When an investor has conducted an over-detailed analysis on a business they will

¹ Russo and Schoemaker, *Winning Decisions*

be confident that their estimates are more accurate than others because of the excessive amount of time they have spent on studying their larger collection of data. As the example above points out, this won't necessarily be the case.

This brings us to management interviews and whether they can benefit us by increasing the accuracy of our analysis or whether they hinder us by simply increasing confidence. We believe management interviews are helpful when:

You are prepared. Most CEOs understandably have an optimistic opinion about their company's prospects. They usually emphasize the company's strengths and downplay its weaknesses. Without preparation investors usually walk away from the meeting with a distorted perception of the company. But if we can demonstrate that we are well prepared for a meeting, CEOs will usually drop the sales pitch (along with their Powerpoint presentation) and engage in a candid discussion about the strengths and weaknesses of their business. Proper preparation usually includes an understanding of industry economics, careful study of the company's financial statements, a background check on the individuals, reading transcripts and speaking with customers, suppliers and competitors. This level of preparation is time consuming and does not lend itself to a large volume of management meetings.

Management's priorities for capital allocation and strategy are revealed. In our experience, the best way to understand a CEO's decision making is to ask him to make choices. We do this by asking questions such as:

- If you could only operate in one country, which one?
- If you could only sell one product, which one?
- If you had to invest all your money into one competitor, which one?

This technique is only effective if you are prepared well enough to recognize the priorities revealed by the CEO's answers.

Culture is revealed. This is usually only accomplished on a site visit to a company's premises. You can learn a lot about a company's culture by observing:

- Are the offices decorated and designed appropriately?
- Is the CEO physically separated from other employees?
- Are corporate presentations printed in color or in black and white?
- Are the offices empty at 5 o'clock?

To conclude, management interviews, as often practiced, are potentially counterproductive because **they increase investors' confidence without improving accuracy**. Overconfident investors tend to minimize risks, which inevitably leads to capital losses. We would caution you to be skeptical of any investor who touts the number of management interviews they conduct as this is an area where quality trumps quantity.

Miscellaneous

A transcript of our annual limited partners meeting is now available on our website where you can also access additional information, including past letters, about our firm.

We are also pleased to welcome Samir Taghiyev to our team. Samir is a third year commerce student at the University of Toronto and will be interning with us through the end of the year.

As always, please do not hesitate to contact us if there is anything unclear in this letter.

Cordially,

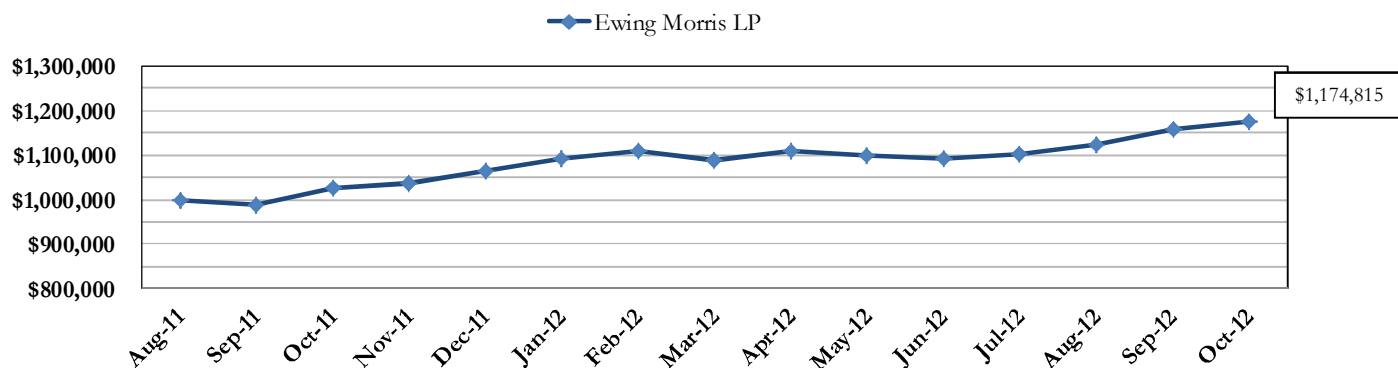


John Ewing
Co-Founder



Darcy Morris
Co-Founder

Growth of \$1 million invested since inception (9/9/11) as of October 31, 2012



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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