

March 1, 2016

Dear Friends and Partners,

With the portfolio still in its formative stages, we think it is important to provide written updates on a monthly basis to keep you well-informed on how we are deploying capital. Once the portfolio has reached a more mature state we plan to provide our customary Quarterly Updates to Limited Partners.

Since launching on February 1<sup>st</sup> we have been gradually building the portfolio with carefully selected fixed income investments. As of month end, the Flexible Fixed Income Fund is 33% invested among 13 securities. The portfolio is already well-diversified by sector, credit quality, term and investment “play”.

The high yield market was volatile in February, trading down 3.6% in the first two weeks before rallying to end the month roughly flat. We invested your capital in a reasonably steady fashion throughout the month, with most of our buying occurring mid-month, when markets were particularly weak.

Our early focus has been “Structural Value” bonds which tend to be relatively insulated from broader markets. Investment success in this play is usually determined by the contract terms. One example is Earthlink Holdings, an American telecommunications service provider. The business is highly cash generative and excess cash has been used to reduce leverage which currently stands at just 1.5x its cash flow. We expect the company to repurchase its remaining bonds within the next 18 months which would result in a return exceeding 10%. Even if held to maturity in 2020, our yield exceeds 7% and the risk is low given limited leverage and the bonds’ first secured position on all of the company’s assets.

In February, a number of high-profile energy companies were downgraded, many into “junk” territory. This created forced selling and we even saw some bonds fall faster than the same company’s stock, a rare occurrence that highlights how out of favour resource-related bonds currently are. We purchased near-dated bonds in Canadian Natural Resources due May 2017 that yield more than 6% - a very high rate for such a short time to maturity. There is \$30 billion of market cap behind us in the capital structure and we think the company has ample liquidity with which to pay us back.

As we move forward, we will continue to deploy your capital in well-researched credit securities at attractive prices as we steadily move toward a fully invested portfolio. Thank you for your trust in us at this very opportunistic time in North American credit markets. We look forward to taking advantage of these extraordinary times, to the benefit of all our Limited Partners.

As always, if you have any questions, please do not hesitate to contact us.



Randy Stewart  
Flexible Fixed Income Fund Portfolio Manager

**About Ewing Morris & Co. Investment Partners Ltd.:**

Ewing Morris & Co. is a value driven Canadian boutique investment firm established in 2011. The Ewing Morris Flexible Fixed Income Fund LP invests in carefully selected, primarily high yield, fixed income securities while controlling risk through cross-capital structure hedging.

**CONTACT INFORMATION:**

Ewing Morris & Co. Investment Partners Ltd.  
1407 Yonge St., Suite 500  
Toronto, ON M4T 1Y7  
Canada  
[info@ewingmorris.com](mailto:info@ewingmorris.com)  
416.640.2791

*This letter does not constitute an offer to sell or the solicitation of an offer to buy any interest in the Ewing Morris Flexible Fixed Income 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.*