EWING MORRIS
INVESTMENT PARTNERS LTD.

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*"The Intelligent Investor is a realist who sells to optimists and buys from pessimists."* – Ben Graham

Dear Friends and Partners,

Investment Update

The following table summarizes our investment performance, net of all fees and expenses, in addition to well-known and widely-followed investment alternatives for our Limited Partners.

| Year | **Ewing Morris Opportunities LP Class A[1]** | S&P/TSX Index with Dividends Included | S&P 500 Index with Dividends Included |
|---|---|---|---|
| 2017 (YTD) | **6.5%** | 0.7% | 9.3% |
| Total (Annualized) | **11.2%** | 6.7% | 16.0% |
| | **Ewing Morris Flexible Fixed Income LP Class P[2]** | iShares U.S. High Yield Bond Index ETF (CAD-Hedged)[3] | iShares Canadian Corporate Bond Index ETF[3] |
| 2017 (YTD) | **4.8%** | 3.9% | 2.5% |
| Total (Annualized) | **13.8%** | 14.6% | 4.4% |

We know people are nervous about the broad markets. In the last two months, we have seen the following significant events: 1) the trailing S&P 500 earnings multiple pushed through 22x, an event not seen since the dot-com era; 2) high yield bond yields moved below 5.5%, approaching all-time lows of 4.9% in June 2014; and 3) the VIX index, the market's "gauge of fear", declined to levels below those of January 2007. These three historical precedents have one unifying characteristic: subsequent market returns were well below long term averages[4].

However, bull markets are notorious for running longer than most expect (we are now in year eight of a bull market that was expected at many times to cease) while market reversals are notorious for turning faster than people imagine. Attempts by investors to time the markets have proven countless times to be a low-probability and expensive exercise. While we wait for our next big idea, we are focused on finding investments that are mostly independent of the broad market movements.

[1] Results are estimates as of June 30, 2017 and are net of all fees and expenses. Fund inception was September 9th, 2011.
[2] Results are estimates as of June 30, 2017 and are net of all fees and expenses. Fund inception was February 1st, 2016.
[3] Note: Low-cost, index tracking funds; representative of an individual's opportunity cost in fixed income.
[4] June 6, 1997 – The SPX P/E breached 22x. Subsequent 5 year returns annualized 5%, with plenty of market fluctuations in this time period; June 24 2014 – The BAML HY Index had a yield of 4.9%. Subsequent 2 and 3 year returns were 0% and 4.6%, respectively; January 24, 2007 – The VIX bottomed at 9.9, the BAML High Yield Index subsequent returns (annualized) (3 and 5 years): 6.0% and 7.5%. S&P 500 subsequent returns (annualized) (3 and 5 years): -6.8% and 0.4%.

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Opportunities Fund LP Commentary

Recent events at Home Capital Group, an important residential mortgage lender in Canada, have been fascinating to observe. Rather than merely spectating, the research team at Ewing Morris was able to work together and generate returns across the capital structure. The media has done an excellent job reporting on Home Capital so this letter will only describe our actions, rather than rehashing the entire story. Here is an article that outlines a timeline of the events surrounding the company's near-collapse.

On April 26, with the stock price plunging from $17 to $6, Randy Steuart identified an interesting opportunity to buy Home Capital debt. Home Capital's subsidiary, Home Trust, had securities called deposit notes that normally yield about 3-4%. Likely, due to the sense of panic surrounding the company, the deposit notes were selling for about 80% of face value to yield 25% to maturity in 2018. There was also a strong probability the company would imminently be sold to a Canadian bank, in which case the notes would likely be worth in excess of face value within a matter of weeks.

In the following weeks, while uncertainty remained high, the bonds rallied in price to the high 80s and we sold at 89, realizing an 8.5% return in two weeks.

As the situation continued to evolve, Alex Ryzhikov suggested buying Home Capital's shares in late May. The initial reaction was skeptical, but as we assessed the situation, we saw the following: the new board seemed to have taken control of the situation, deposits were stabilizing, the shareholder base had turned over and banks were no longer lending shares to short sellers. The worst appeared to be over. Alex also suggested that the announcement of permanent financing would likely be well received by markets. We ultimately purchased shares at an average cost of $9.15. The outlook was still highly uncertain and we controlled risk by limiting the position size to 1% of assets.

On June 22nd, the company announced new financing with Berkshire Hathaway and the stock rallied in price. We had begun selling a few days earlier and exited at an average price of $15.73 generating a 73% return in one month.

While the percentage returns were high, the dollars invested were limited such that the portfolio contribution from Home Capital was modest, albeit meaningful. This is an important story not only because of the financial impact to Ewing Morris, but because it demonstrates how our research team can work collaboratively.

Flexible Fixed Income Fund LP Commentary

In the Flexible Fixed Income Fund, we have taken measures to control risk in three ways:

1. *Our investments bear lower credit risk than average*. The portfolio is focused on the upper end of the high yield credit spectrum; yielding 5.2% with an average bond price of 102.8. These are market-based measures of risk and are evidence that we are not 'reaching for yield'.
2. *Our investments bear lower interest rate risk than average*. History demonstrates that high yield bonds tend to outperform in rising rate environments. The duration (a measure of interest rate risk) of the portfolio is 3 years, well below the high yield and investment grade market (3.7 and 6.4).
3. *We continue to refrain from using leverage*. The Fund is 89% invested, with 11% cash to be deployed opportunistically.

We think these attributes of the Flexible Fixed Income Fund and Opportunities Fund portfolios should serve you well in the event of increased stock market or interest rate volatility. It will pay to remember that periods of market volatility are excellent opportunities for the deployment of new capital. We look forward to having conversations with you when the opportunities we see justify coming to you not with a cup in hand, but with a bucket.

Miscellaneous

We are excited to have Anthony Hammill and Lee Matheson on the team and in the office. While Anthony and Lee primarily co-manage the Broadview Dark Horse LP – a $50 million mandate with typically lower net exposure than the Opportunities Fund LP – both of them are adding value to Ewing Morris & Co. in other ways.

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Normally we host our Annual Update in October of each year. Over time, various clients have communicated how busy the fall season is. We have taken this feedback under advisement and have decided to move our next, and all subsequent Annual Updates, to the spring, as it suits everyone's schedule better. If next spring is considered too long between updates, we are scheduling discussions in the fall for those interested.

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Ewing Morris & Co. is looking for an Associate to assist with supporting our relationships with limited partners. The position includes assisting with multiple projects at one time, such as constructing investor presentations, assisting with investor due diligence requests, conducting market research, and supporting the fund subscription process. The Associate will have significant interaction with members of the firm's research team and operations/compliance group. If you know anyone who may be a fit and have an interest in joining us, please let us know.

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Lastly, it is with great sadness that we note the passing of Avie Bennett on June 2, 2017. He was an esteemed Advisory Board member of Ewing Morris & Co. Investment Partners. We are extremely proud of our long association with Avie who was with us since our inception in 2011. Avie will be remembered as a driving force, first in the development industry, then the publishing world and as a generous philanthropist throughout his life. He will be much missed by us all.

Yours sincerely,

John Ewing
Co-Founder

Darcy Morris
Co-Founder

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**About Ewing Morris:**

Ewing Morris & Co. Investment Partners Ltd. is a value driven Canadian investment firm established in September 2011 by John Ewing and Darcy Morris. Our aim is to achieve preservation and growth of capital for our Limited Partners by focusing on inefficient markets. We do this by relying on fundamental analysis, high conviction and the use of flexible capital. We manage two distinct strategies with a focus on small and mid-cap companies. We manage investments for individuals as well as charitable organizations, institutions and corporations.

**CONTACT INFORMATION:**

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