EWING MORRIS
INVESTMENT PARTNERS LTD.

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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)	**5.7%**	4.5%	14.2%
Total (Annualized)	**10.6%**	7.1%	16.1%
	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)	**5.3%**	5.3%	1.1%
Total (Annualized)	**11.9%**	13.2%	2.8%

During the quarter, we added to two of our largest five holdings on price dips. Overall, we feel the portfolio is well positioned going forward.

Opportunities Fund LP Commentary

We are often asked what our thoughts are on passive investing.

In our view, a broad market ETF can be a good solution if you are prepared to hold it for a long time and through inevitable periods of market volatility. After all, according to S&P, 85.4% of large-cap managers fail to outperform their benchmark[4]. Therefore, if picking individual winners is a low-probability exercise, you might as well own *everything* (i.e. the index), so that you do not miss *anything* (i.e. Apple or Amazon).

Here is a simplification of how an ETF functions: when money flows into an ETF, the capital is automatically allocated pro-rata to the underlying index constituents by purchasing shares of those companies. Since the amount of capital flowing into ETFs is so large, the inflows tend to be concentrated in companies that are large and liquid enough (i.e. S&P 500, TSX Composite, etc.) to be included in the ETF. This is effectively a forced buying mechanism that generally bids the underlying stock prices of the ETF higher without regard to valuation or fundamental business analysis. The rising share prices then lead to further capital inflows. This is what some call a "virtuous circle" and has been a factor in the rise of the S&P 500 over the past 9 years.

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[1] Results are estimates as of September 30, 2017 and are net of all fees and expenses. Fund inception was September 9th, 2011.
[2] Results are estimates as of September 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] Source: S&P Indices Versus Active funds scorecard; http://us.spindices.com/spiva/#/reports

Over the past decade, there has been a large shift from traditional active investing (i.e. mutual funds) into passive investing (i.e. ETFs). In 2016, investors pulled $340 billion from U.S.-based actively managed funds while pouring $505 billion into U.S.-based passively managed funds[5]. This means that all that money is going into the exact same stocks. We think it will likely prove naïve to think there will be no unintended consequences with this shift. Remember, passive investing removes active business judgement and price considerations from the decision to buy a stock. It is a rules-based investment strategy where market capitalization is the key determinant of position size.

It is worthwhile to think about what would happen if money were to start flowing *out* of ETFs. We would expect this to have a disproportionate impact on the largest public companies, making benchmark returns worse (i.e. S&P 500, Russell 2000, etc.) and more volatile than they otherwise would be. Rather than the virtuous circle with favorable results created by net inflows, net outflows from ETFs could lead to a vicious circle with detrimental results.

At Ewing Morris, we view the trend towards ETFs as creating an opportunity. The forced buying and selling nature of ETFs leads to larger disconnects between underlying value and price – creating opportunity for patient investors who focus on assessing and valuing businesses. In the current environment, we generally avoid owning ETF-owned stocks and bonds. We believe that when the market tide inevitably turns, ETFs will exacerbate the decline leaving us better positioned to minimize the pain.

Flexible Fixed Income Fund LP Commentary

We recently wrote in the Globe and Mail about an area of fixed income that we think deserves some sunlight: tax. People invest in bonds because they do not want to lose money. However, the problem is that many investors are not paying attention to the after-tax returns of their bond investments. Today, there are negative expected after-tax returns on billions of dollars of corporate bonds in Canada. Many short term bond investments (individual bonds, funds and ETFs) are at risk of not working as one would expect.

In fixed income, the 'yield to maturity' is the return the investor receives over the term of the investment, expressed as an average annual percentage rate. This return is a combination of two things: the expected price appreciation (or depreciation) and the interest income produced by the investment.

Income payments are taxed at the investor's marginal rate whereas capital gains are taxed at half of the investor's marginal rate. In order to minimize investor taxes, an investor should want as little return as possible to come from income since capital gains are much more attractive. Unfortunately, we are currently seeing interest income on bonds that is high enough to turn a positive before-tax investment into an after-tax money loser.

To illustrate how this happens, take a bond index used for a popular short-term bond ETF that has approximately $1-billion in assets. Using May 31 as a snapshot, this index had an average interest

[5] Source: The Wall Street Journal; https://www.wsj.com/articles/vanguardreaches-4-trillion-for-first-time-1486745349?mg=prod/accounts-wsj

payment of 2.5 per cent a year, yet the index had a yield to maturity of 1.15 per cent, with an average maturity of three years. What this means is that investors can expect an average annual pre-tax return of 1.15 per cent over time. However, at top marginal tax rates, annual taxes owing on the 2.5 per cent of interest income would take away about 1.25 per cent of return, making it a negative after-tax return of minus 0.1 per cent (1.15 per cent less 1.25 per cent in taxes), even though the advertised "yield" would indicate the product should earn a positive return.

If investors chose to hold this investment for three years, they were virtually guaranteeing a loss in after-tax dollars. What is most astonishing is that this negative result is before an ETF's management expense ratio and, if the investor pays for investment advice through a financial advisor, an additional investment advisory fee is incurred. There are better places to invest in fixed income than this.

The advantage that ETF's have over the active management space boils down to fees. Indeed, fees should be an important focal point for investors; however, in this low rate environment, there is a limit to the value of low fees when a product is no longer set up to achieve an investor's goal. As the above tax dynamics demonstrate, after-tax risk-adjusted returns should be an investor's primary focus. This must consider fees, but not be defined by them.

A key advantage of the Flexible Fixed Income Fund is its unconstrained mandate which allows it to move away from areas in the market that are unattractive from a tax perspective, to different areas where after-tax risk adjusted returns are strongest.

It is clear to us that tax is an after-thought for fixed income investors. Taking a page from Carl Jacobi, the German mathematician, we choose to 'invert' this problem into an opportunity, and seek to uncover investments that the market is mispricing on an after-tax basis. Examples of this include investments in 1) bonds that have low coupons and are priced at a discount to par, allowing for capital gains and 2) Canadian preferred shares, which pay dividends.

Miscellaneous

This past September marked the six-year anniversary of Ewing Morris & Co.'s investment operation. Over that time, we have demonstrated an ability to consistently deliver results that meet our Limited Partners' long-term expectations. Our Limited Partners continue to entrust us with capital because we take a differentiated approach and have a track record of outperformance against our domestic market. Thank you for your continued confidence.

Yours sincerely,

John Ewing

Darcy Morris

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 strategies with a focus on small and mid-cap companies. We manage investments for individuals as well as charitable organizations, institutions and corporations.

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