EWING
MORRIS
INVESTMENT PARTNERS LTD.

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March 31, 2017

Annual Report to Limited Partners as of December 31, 2016

Year	**Ewing Morris Opportunities LP Class A**[1]	S&P/TSX Index with Dividends Included	S&P 500 Index with Dividends Included
Sept. 9, 2011 – Dec. 31, 2011	**6.3**	(2.5)	7.8
2012	**11.5**	7.2	16.0
2013	**16.2**	13.0	32.4
2014	**(1.7)**	10.6	13.7
2015	**8.3**	(8.3)	1.4
2016	**18.9**	21.1	12.0
Total (Cumulative)	**74.3**	44.9	117.5
Total (Annualized)	**11.0**	7.2	15.7
	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]
Feb 1, 2016 – Dec. 31, 2016	**14.6**	16.8	3.6

[1] 2011 data is from September 9th, the date the Ewing Morris Opportunities Fund LP began investment operations. Results are net of all fees and expenses.
[2] 2016 data is from February 1st, the date the Ewing Morris Flexible Fixed Income Fund LP began investment operations. Results are net of all fees and expenses.
[3] Low-cost, index tracking funds; representative of an individual's opportunity cost in fixed income.

Contents

Business Summary…………2
Opportunities Fund LP…….3
Flexible Fixed Income Fund LP…..8
Miscellaneous…………………….15

Business Summary

In a year of constant surprises and geopolitical uncertainty, we delivered solid investment results for all our Partners. The Opportunities Fund returned 18.9%, net of fees, and the Flexible Fixed Income Fund returned 14.6%, net of fees.

We have always defined market volatility as opportunity for those that are prepared and have the mental fortitude to act. In 2016, we took advantage of market volatility to add value for our Limited Partners. For example, the biggest contributors to returns for the year were our investments in ZCL Composites and J2 Global. After monitoring the companies for some time, we made material investments in these companies only after their stock prices had declined over 30% in both cases. Our focus on intensive research, as well as familiarity with management, provided us with the confidence to act with conviction. Since we materially added to these investments, we are pleased to note that ZCL Composites has increased in excess of 100% and J2 Global has risen 40%.

We added Randy Steuart to our team in late 2015 and launched the Flexible Fixed Income Fund under his leadership on February 1, 2016. We now have the unique advantage of having both equity and fixed income expertise. This allows us to be capital structure agnostic when it comes to analyzing businesses and investment opportunities. In 2016, the Opportunities Fund benefited directly from Randy's expertise by making a number of bond investments that generated double-digit returns. Similarly, in the Flexible Fixed Income Fund, we successfully invested in the debt securities of companies in which we already held the equity.

Today, our portfolio is well-positioned (i.e. cash, hedges, takeout candidates, strong management teams, solid valuations and low leverage) and we have a high quality group of like-minded clients. We have a stable capital base with Ewing Morris & Co. insiders collectively representing ~16% of our capital and another 10% of Limited Partners invested in our longer-term fee classes. While we are cautious on the overall market, we remain optimistic about our portfolio. We do not own "the market", rather, we own a concentrated portfolio of quality, small businesses that we know well and are priced reasonably.

Over the past year we have also received growing interest from institutional investors such as endowments and pension plans. The Opportunities Fund, with its capacity constraints and flexible mandate, is less suitable for institutional investors. Therefore, we plan to launch a long-only small cap equities mandate custom-designed for a handful of institutional investors. An institutionally-focused long-only global strategy should also benefit the existing Opportunities Fund in the following ways:

- Idea feeder – the Opportunities Fund can take advantage by investing in the best global ideas.
- Co-investment – the global small cap strategy can co-invest alongside the Opportunities Fund on proactive investment ideas.

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Since our first meeting to discuss the blueprint for Ewing Morris & Co., we agreed that our guiding principle would be "to build an investment firm of which we would want to be clients." For us, the firm that we would want to be clients of has the following characteristics:

- Employs an understandable approach to investing based on common sense principles and underpinned by fundamental business analysis.

- Makes operational excellence a priority and works with best-in-class service providers.
- Strives to build meaningful long-term relationships with its investors based on candid communication.
- Measures its success based on the absolute net returns delivered to its investors over time.

The investment management business is highly competitive; hard work and passion are mandatory. There is no guarantee or magic formula for success; however, we firmly believe that the odds increase in your favor if you have a solid mental framework to help make difficult decisions and processes in place to guard against emotion. If you do these things, the financial returns will take care of themselves.

As we look ahead, we remain confident in our ability to deliver results that will meet our investors' expectations over time.

Opportunities Fund LP

Investment Results

In our fifth full year of investment operations, the Ewing Morris Opportunities Fund LP returned +18.9%, net of fees and expenses. This result exceeded the S&P 500 and trailed the S&P/TSX. At year end, the market value of the strategy's assets was $123 million.

While both the Opportunities Fund and the S&P/TSX Composite delivered great results in 2016, they were achieved in significantly different ways. In 2016, the best returning sectors of the S&P/TSX Index were materials (+41%), energy (+36%) and financials (+24%). Over the same period, the Opportunities Fund owned no banks, no mining companies and only some energy-related businesses. So while the end returns were similar, the paths to achieving them were very different. This is consistent with our approach to owning a portfolio that is not closely linked with the broader markets.

Market Overview

When we launched in September 2011, the price/earnings ratio for the S&P 500 was about 13x. At the end of 2016 the ratio was 21x. This multiple expansion has meaningfully contributed to the strong results of the S&P 500 over the last five years. It is almost certain this expansion will not be repeated in the next five years. Assuming no change in earnings multiples, investors should expect to achieve mid-to-high single digit returns from portfolios that look like the S&P 500. If earnings growth stalls (i.e. prolonged recession) and/or multiples compress towards the historical average of 15x, returns will be lower, possibly negative.

While it is likely that the Opportunities Fund cannot remain immune to general market forces, your portfolio is based on the principal of preserving capital and conservative and well-researched valuations. It looks nothing like the S&P 500 or any other major index. This gives us confidence in our ability to continue delivering above average double-digit returns.

Our Goal

We believe that we need to have a *pre-determined* and *agreed upon* standard of measurement. It is important for us to agree on these standards in advance so that you, our Limited Partners, will evaluate us on known criteria and the opportunity for us to rationalize performance will be minimized.

The fundamental measure of our success will be the wealth we create for our Limited Partners over the long term. This will be a direct result of our goal to deliver double-digit returns, net of all fees and expenses, over time while minimizing the risk of permanent loss.

An appropriate timeframe for measurement is at least three and preferably five years. More importantly, the time period should include a variety of market conditions. For instance, a three-year period including 2008 and 2009 (which had large positive and negative market returns) is a more much useful measurement period than the eight-year period from 1991-1999 in which the market only advanced upwards.

While our goal is to deliver the results we aspire to, we simply cannot guarantee them. We do promise to invest our own money alongside yours.

<u>Investment Review</u>

Mistakes Were Made

Since we believe in delivering the bad news first, we will start with our mistakes.

Our short position in Cloud Peak cost you money this year. Cloud Peak is the third largest coal producer in the U.S., producing coal from three mines located in Wyoming and Montana. In recent years, falling natural gas prices have severely damaged the competitiveness of coal, resulting in the bankruptcy of almost every major coal producer.

Cloud Peak avoided bankruptcy by securing long-term contracts when coal prices were higher. These contracts were rapidly maturing in 2016 and the company's rising cost structure did not appear to be fully appreciated by investors. We consequently shorted the stock with the intent to profit from a decline in its share price.

However, the price of natural gas rallied in the summer of 2016, which resulted in increased coal demand and a dramatic improvement in the earnings outlook for Cloud Peak. This allowed Cloud Peak to renegotiate some of its debt, to our detriment. This was then followed by the election of Donald Trump, which further enhanced the sentiment for coal. The viability of Cloud Peak's business has improved dramatically and the stock price has more than doubled from July (when we initially shorted the stock) through November (when we exited the investment).

Excluding Cloud Peak, we made money shorting stocks in 2016 despite the market rising double-digits. However, you have to count all 18 holes when you are golfing and Cloud Peak ruined an otherwise improved short selling record.

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Another mistake made evident in 2016 was our investment in J.W. Mays.

J.W. Mays is a small real estate company that owns seven real estate properties. Most of its value is in two adjacent properties in Brooklyn, New York that have substantial redevelopment value. When we began purchasing shares in the company in 2013, we paid an implied value per square foot of $170.

Our margin of safety was in our price as this was a significant discount to both our estimates of replacement value (i.e. $250-$300/square foot) and comparable transactions in the neighborhood (i.e. $500/square foot). We believed we were purchasing a dollar for $0.50, possibly $0.25, and all we had to do was wait for capitalist forces to re-price these assets accordingly. To be more specific, we believed management had the ability to reposition its properties, increase cash flow materially and unlock shareholder value.

Unfortunately, in 2016, the company extended the lease of a large tenant out to 2041, originally due to expire in 2021. This decision was highly disappointing because it effectively nullified the redevelopment option.

The underappreciated element to our investment in J.W. Mays was management's motivations. The company has one primary shareholder, the Shulman family, who control roughly 57% of the outstanding shares. Unfortunately, management and controlling shareholders have failed to act in what we believed were the best economic interests of shareholders. Our minority ownership position meant we were at the whim of the Shulman family and a hostile takeover was impossible.

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The Advantages of Flexibility

On the positive side, we continue to enjoy the advantages of flexibility. This is one of our key structural advantages. One important form of flexibility is our ability to own fixed income securities. While stocks represent an ownership interest in a corporation, fixed income securities (i.e. bonds) are a form of debt, which the corporation is contractually obligated to repay. When investing in bonds, we seek securities that offer equity-like returns (i.e. greater than 15%) with increased protection because of their senior ranking in the capital structure. Our fixed income securities collectively contributed more than one quarter of the gains in 2016.

One example of using flexibility to our advantage was our investment in Calfrac Well Services. Calfrac is an energy services company providing pressure pumping and related services to oil and gas producers in North America, Russia, Argentina and Mexico. We first purchased stock in 2015 which proved to be a mistake as energy prices declined further. We subsequently sold our stock to buy Calfrac bonds at $60 in October 2015.

We believed the bonds were well protected by the asset value of Calfrac's fleet of equipment. The bonds pay a 7.5% annual coupon but since we bought them for 60% of face value, our initial cash yield was 12.5% and the yield to maturity, or our return if they paid us back in 2020, was 20.5%. Soon after our initial purchases, the price of the bonds promptly fell by almost 30% and we bought more in December 2016 in the low $40s. In 2016, as oil prices rallied, the outlook for Calfrac improved and the bonds ultimately rose into the low $90s. We sold half our bonds in July in the mid-$60s and the balance in December in the mid-$70s.

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A second successful fixed income investment was Western One convertible bonds due 2020. These bonds pay an annual coupon of 6.25%. We purchased these bonds in late 2015 in the mid-$40s. At that price, our cash yield was about 14% and the yield to maturity exceeded 20%. Similar to Calfrac, our analysis indicated that the value of Western One's equipment fleet comfortably exceeded the market value of the debt we bought. In 2016, Western One converted a different series of its debt into equity which substantially improved the credit position of the bond we owned, with its price rising to approximately $70. In March 2017, Western One sold assets at an attractive price and the bonds rose again, into the low $80s. We continue to hold these bonds, which we think are worth their face value of $100.

Some investors justifiably questioned the launch of our Flexible Fixed Income Fund and asked if it would be a distraction for our organization. While John led the research on both of these companies, Randy Steuart, who manages the Flexible Fixed Income Fund, contributed valuable analytical insight on the securities' contractual features. One consideration in adding Randy to our team was his ability to enhance our equity research capabilities, which these two case studies illustrate.

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The Advantages of Focus

Another structural advantage is focus. We think the stories of ZCL Composites and J2 Global, both key contributors to results in 2016, are good illustrations.

ZCL Composites is a leading North American manufacturer of fiberglass storage tanks, primarily for gas stations. This is a wonderful business with high returns on capital, steady demand, and a sustainable competitive advantage.

A fiberglass tank is large and primarily consists of air which makes it uneconomical to ship long distances. Consequently, domestic producers are protected from imports and fiberglass tank manufacturing in North America is dominated by two companies: ZCL Composites and Containment Solutions Inc.

In 2016, ZCL sold its underperforming above-ground business in order to focus on its lucrative underground business. At the same time, ZCL has been returning excess cash to shareholders in the form of special dividends and increased regular dividends. These efforts were led by CEO Ron Bachmeier and encouraged by Darcy Morris in his role as a Director of the company.

This strategy has been well received by the market. In addition to $1.64 per share of dividends received, the Company's stock price has more than doubled since our initial purchases around $6 per share in September 2015.

At the time of our investment, ZCL had a strong position in a stable industry, no debt and traded at a very attractive valuation. This was an exceptional investment opportunity and we invested accordingly; ZCL was our largest investment entering 2016 when it represented 12% of our capital.

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Another success in 2016 was our investment in J2 Global. J2 Global provides a variety of IT services to small and medium-sized businesses and also owns a portfolio of valuable internet properties. Management is terrific and has an outstanding long-term track-record of creating shareholder value via acquisitions. Alex Ryzhikov, of our investment team, originally identified J2 as an interesting company and we invested in mid-2015 when the stock was trading for about $70 per share.

In March 2016, a well-known promotional short-seller published a report about J2. The stock price responded with a 20% drop in a single day from $71 to $57 per share. We carefully reviewed the report and concluded that the author's analysis was unsubstantiated and poorly researched. We also interviewed several former employees to test our initial positive conclusions on the integrity of J2's management. Then we acted.

We doubled our investment in J2 at an average price of $59 per share, making it the single largest holding in the portfolio, about 15%, at the time. Subsequently, J2's businesses have continued to perform while management has continued to make value-creating acquisitions. Today, the stock trades at $85 per share and remains our largest investment.

Our investment process emphasizes deep research of a limited number of companies and careful assessment of management, particularly their capital allocation skills. We also believe that an investor's very best ideas are usually vastly superior to his/her fiftieth or one hundredth best investment idea. Our deep research of ZCL and J2 allowed us to act with conviction when the opportunity arose, while our willingness to operate a concentrated portfolio allowed us to maximize the value of these insights.

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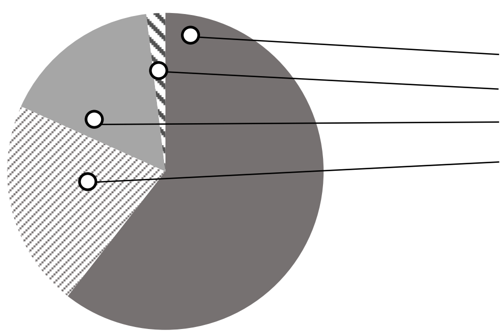
Current Portfolio

The Partnership is currently fully invested. The ten largest investments represent approximately 79% of assets as of this writing. This is offset by four short positions that account for 9% of net assets. With 7% of total assets in cash, our net exposure to the market is 93%.

The division of our portfolio among investment plays is largely determined by the availability of actionable investment ideas. Today, we have the bulk of the portfolio invested in the Cheap Assets play where investment results will be determined by company-specific events rather than the direction of broader equity markets.

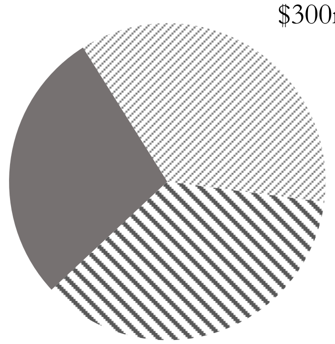
Strategy Breakdown



Cheap Assets	63%
Broken Businesses	-2%
Great Businesses	17%
Great Capital Allocators	22%
Hedge	-7%
Cash	7%
	100%

The Partnership's investments are currently 64% in Canada and we continue to allocate a large percentage of assets in smaller capitalization companies where we can take advantage of our relatively smaller pool of capital. The median market capitalization of our long companies is $400 million.

Market Capitalization Breakdown



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Lessons Learned

We are fortunate to have so many experienced business leaders among our investor base. One of the most universal lessons shared with us is the importance of choosing the right people in order to achieve business success. This is a view we share as demonstrated by our Great Capital Allocator investments.

Outstanding people were an important factor in many of our successful investments, like J2 Global and ZCL Composites, in 2016. Our experience is that outstanding managers continuously surprise with their ability to create value.

We have been fortunate to invest alongside the likes of Daryl Abotomey (Burson Group), Ron Bachmeier (ZCL Composites), Brock Bulbuck (Boyd Group), Julian Cook (Summerset Group), Ken Dedeluk (Computer Modelling Group), Bob Dhillon (Mainstreet Equity), John Festival (Blackpearl Resources), Mark Leonard (and all the business unit leaders at Constellation Software), Scott Turicchi, Hemi Zucker and Vivek Shah (J2 Global), Robert Pera (Ubiquiti Networks) and Paul Soubry (New Flyer), among others.

Do not underestimate the importance of people. It seems obvious, but it bears repeating. It is easy for qualitative factors (like people) to be ignored when one encounters a statistically cheap stock. In our experience, companies with cheap stocks and weak management are often tempting, but rarely profitable. We will strive even harder in 2017 to focus our investments alongside first-rate managers.

Outlook

One important advantage of investing in public companies is the opportunity to change the size of your investment over time. This contrasts with control investing (like private equity), where a business is typically for sale today and you either buy it or you do not.

We currently have small investments in several companies that offer excellent long-term prospects, but also seem likely to face near term challenges related to economic headwinds and valuations. We would expect to invest substantially more if the expected challenges materialize and they become available at better prices. We think our next great investment is likely in this group and we hope to tell you more about these companies next year.

Flexible Fixed Income Fund LP

Investment Results

The Flexible Fixed Income Fund LP began investing on February 1, 2016. Under the direction of Randy Steuart, through December 31, Class P units returned 14.6% net of all fees and expenses. Your personal results may differ depending on the Unit Class and date of your investment, but all Limited Partners experienced a positive return for the period.

Our Goal

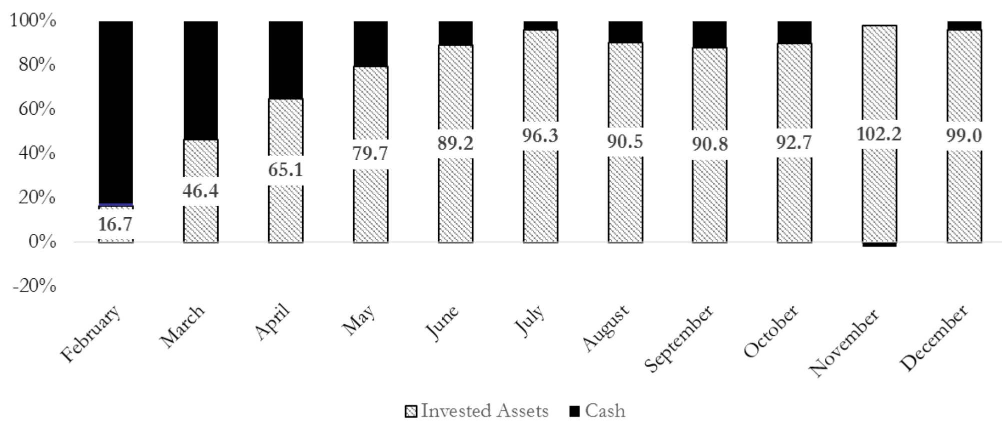
The goal of the Partnership is to earn 5-7% annualized net returns, over a reasonable timeframe while minimizing the risk of permanent loss and controlling volatility. We define a reasonable timeframe as five years which translates into a cumulative holding period return between the range of 30-40%. We think our goal of achieving 5-7% net returns compares favorably to our two principal benchmarks (noted at the beginning of this letter), which reflect well-known and accessible alternatives for our investors. Both these benchmarks have earned around 5% since their respective inception dates[4].

Again, please note this section outlines "our goal" and not "our guarantee." In pursuing our goal, we simply cannot guarantee results, but we do promise to invest our own money alongside yours.

Investment Review

When we launched the Fund on February 1, 2016, the high yield bond market traded at a level not seen since the credit crisis, carrying a yield of 10% with large sectors in disarray (energy and mining, most notably). We entered this environment with a sound investment strategy, $20 million in capital and a favourable backdrop for making investments in our core area of focus, corporate bonds. It was truly a bond-picker's market and we were fortunate in the timing of our launch. By year end, the Fund's assets had grown to $45 million.

Our gameplan was to deploy capital in debt investments of understandable, well-researched companies over a period of around three months. The below graph shows the average capital invested and cash position in each month in 2016. Please note that monthly figures are *averages* within each month. On April 30, 2016, the portfolio was 80% invested.



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We manage the Fund with a view to control risk and volatility through superior security selection and equity hedging. While there will inevitably be *some* volatility, we are pleased to report that we delivered consistent results over the year, with considerably less volatility than the broader high yield market.

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While there were a few sectors that were particularly dislocated, Fund returns were contributed in a diversified manner, reflecting the portfolio's diversified construction.

[4] 11/10/2006 - iShares Canadian Corporate Bond Index ETF; 4/11/2007 - iShares High Yield Corporate Bond Index ETF.

Investment Play	Contribution (%)
Structural Value	48%
Credit Maker	39%
Durable Business	24%
Hedge (other)	0%
Equity Hedge	-11%

Sector	Contribution (%)
Energy	30%
Materials	19%
Technology	15%
Telecom Services	14%
Consumer Discretionary	7%
Consumer Staples	5%
Industrials	5%
Utilities	4%
Financials	1%
Health Care	0%
Government	0%

On a sector basis, the largest contributor to Fund returns came from energy. From February to May, the period of time where investors viewed energy to be most risky, the portfolio had on average 17% of its assets in energy investments. All of these investments were in companies with sound balance sheets (the largest two investments were rated investment grade) and, in most cases, risk was further reduced through equity hedges, taking our estimated actual exposure down to 8.5%. A casual observer probably thought the sector was risky. However, we invested in companies with strong balance sheets at discounted prices and further reduced risk with equity hedges. The risk of permanent loss was actually quite low. As the market stabilized, these bond investments outperformed our most optimistic expectations and, for months, many *outperformed their own underlying stocks*.

Below summarizes our initial entry and average exit prices[5] of all our energy investments purchased in the first three months of operation.

Company	Bond	Initial Entry Price	Average Exit Price	Credit Rating at Entry
Canadian Natural Resources	5.7% due May 2017	99.17	103	Investment Grade
Canadian Natural Resources	1.75% due Jan 2018	90.26	100*	Investment Grade
Canadian Energy Services	7.375% due Apr 2020	87	104*	High Yield
Precision Drilling	6.625% due Nov 2020	63	94.5	High Yield
Cenovus Energy	6.75% due Nov 2039	70.125	106.67	Investment Grade
Rowan Companies	5.85% due Jan 2044	50.5	78	Investment Grade
Rowan Companies	5% due Sep 2017	97.4	101.75	High Yield

*Current price (3/27); continue to hold.

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From a tax perspective, we take particular care with respect to earning quality *after*-tax results. We value capital gains (and dividends) much more dearly than interest income and we are always on the lookout for investments that should provide us returns in the form of capital gains or dividends. Two good examples of such investments are Canadian Natural Resources 1.75% Senior Notes due January 2018 and Rona Inc. preferred shares. Canadian Natural Resources' 2018 bond was on sale in February 2016 and we were able to make our initial purchase of this bond around 90 cents on the dollar for a yield of 7.3% to its maturity, which was only two years away. In buying bonds at a discount, we were able to capture future earnings as capital gains rather than income. Rona Inc. preferred shares were attractive to us as well since they provided tax-advantaged income in the form of dividends, while the corporate takeover of Rona by Lowe's provided the potential for strong capital gains in the security. We were satisfied earning a dividend yield that was superior to Lowe's own bond yield and the preferred shares were redeemed by Lowe's at a 19% premium to our cost.

In conclusion, we produced what we believe to be attractive results in 2016. We also note that ***we do not expect a repeat performance in 2017***.

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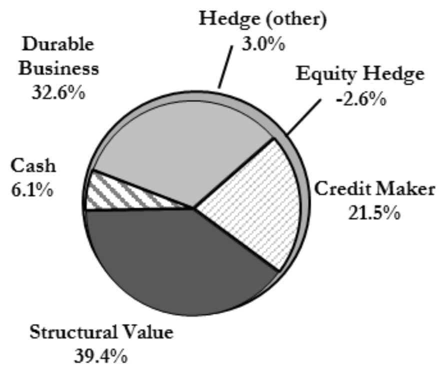
Current Portfolio

While we think "conservative" is an abused word in investment letters, we cannot help to describe our portfolio positioning as being anything other than that. We think the best evidence of this is through our portfolio allocation by investment play.

[5] Or current market price, if still held.

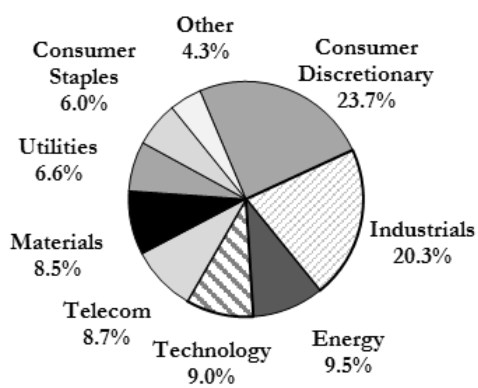
Invested Portfolio Composition



In our search for good investments, we have found that Structural Value opportunities appear quite sensible in light of the current environment. These investments benefit from a healthy yield and a return of capital in a definitive time period. If we encounter poor performance in the broader credit market, we would still expect solid performance out of our Structural Value investments.

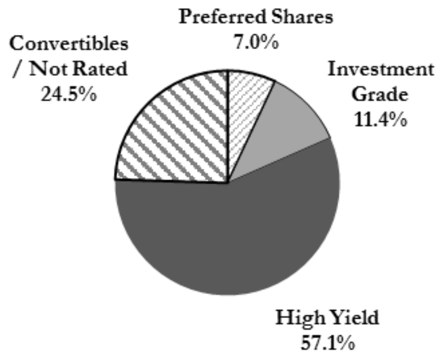
From a sector perspective, the portfolio is well-diversified. In addition to sector considerations, the degree to which the companies in the portfolio are *unrelated* is an important dynamic. We believe the businesses underlying our credits are sufficiently unrelated.

Sector Composition



The portfolio also benefits from diversification among different asset class sub-types. This is important because different areas of fixed income can respond very differently to changing market dynamics. It is for this reason that flexibility is a key competitive advantage of our strategy. For example, if inflation rises, investment grade bonds would likely fall in price, but high yielding bonds would likely earn a positive return. We own a mix of different types of securities; not only do we believe the risk-reward features of each of them are attractive in their own right, we also think that many parts of the portfolio can be expected to move in a reasonably independent fashion.

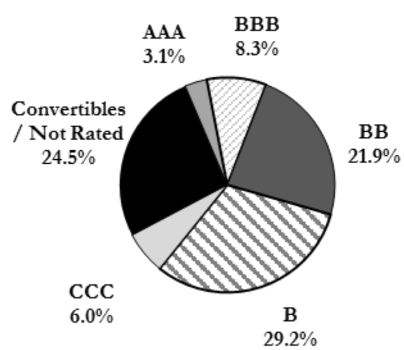
Capital Structure Positioning



The portfolio's average credit quality is quite solid, with our portfolio's underlying businesses carrying an average equity market value of about $6 billion. In addition, these companies have an average of 35% of their business value in the form of debt, an amount we consider quite reasonable. Put a different way, a lot has to go wrong before there is any prospect of not having our bonds paid back in full.

Credit ratings serve as another measure of credit risk. Although ratings do not tell investors about the *investment risk* of a particular security (which is related to the price paid for the investment), it can give a sense of the chance of a company failing to pay back its bondholders upon maturity. A bond with high credit risk is likely to trade with more volatility reflecting investor uncertainty regarding potential outcomes of the investment. Currently, the portfolio has very little invested (6% via two investments) in the CCC sub-segment of high yield, the rating category that typically indicates relatively high credit risk. Not surprisingly, we do not always agree with the credit rating agencies.

Bond Credit Rating



Bloomberg composite, corporate bonds.

Lastly, the average bond price in the portfolio is 101 cents, which reflects confidence on the part of investors that the bonds we own will be paid back at par[6]. Given this level of credit risk, we believe the 6% yield we are earning is compensating us very well.

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Risk Management

Given the current environment of generally low yields, our principal method of controlling risk has taken the form of holding well-purchased investments with low credit risk and good visibility to a payback event for the investment, such as a bond's maturity date or an early redemption date.

Aside from constructing a well-diversified portfolio which reduces risk, we have investments that we regard more formally as hedges to the high yield core of our portfolio. These are short equity positions in companies in which we own bonds and long positions in longer term government bonds. We currently have about 3% of the portfolio in Equity Hedges and 3.5% in 10 year US Treasuries.

If the high yield market were to experience a big move lower in price, we would expect these two parts of the portfolio to move favourably, helping to cushion against downward movements in prices of high yield bonds.

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Mistakes and Lessons Learned

It was reinforced to us in 2016 that a core characteristic of successful investing is the temperament to act with conviction when exceptional opportunities are available. While the pace of our capital deployment matched our guidance to our Limited Partners, we would have been better served had we become fully invested earlier than we did. This likely detracted 5-10% from returns.

We also learned just how sensitive the high yield market has become to changing market trading dynamics. Government regulation passed after the financial crisis has transitioned investment dealers from buying bonds with their own capital (i.e. market making), to becoming match-makers that line-up buyers and sellers for a small fee. This reduction in capital has reduced the liquidity of the high yield market at the same time that Exchange Traded Funds ("ETFs") have grown in popularity. Since ETFs promise immediate liquidity to investors, the result has been increased volatility in fixed income markets.

Given this reality, we have positioned the portfolio in a way that is designed to avoid the volatility that is driven by fund flows. This has meant choosing to own many different *types* of fixed income investments (for example Canadian dollar high yield bonds, preferred shares and government bonds) and avoiding the popular, large bonds that are held in the U.S. high yield exchange traded funds.

[6] This would contrast with a 50 cent bond which would reflect doubt on the part of investors regarding getting paid back.

Miscellaneous

The family of Partnerships has grown to 110 Limited Partners and 148 RRSP/TFSA investors while total firm assets under management now total $188 million. As we discussed at our 2016 Annual Meeting, our business was founded as an investment Partnership for friends and family and we take pride in our clients' achievements and contributions to society.

We note with sadness the loss of Pat Hodgson on December 26, 2016. He was a great investor and one of our early supporters. He will be missed.

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

Yours sincerely,

John Ewing
Co-Founder

Darcy Morris
Co-Founder