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EWING MORRIS & CO. 5TH ANNUAL INVESTOR MEETING

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Toronto Reference Library, October 19, 2016 – Toronto

Remarks have been edited for clarity.

Darcy Morris:

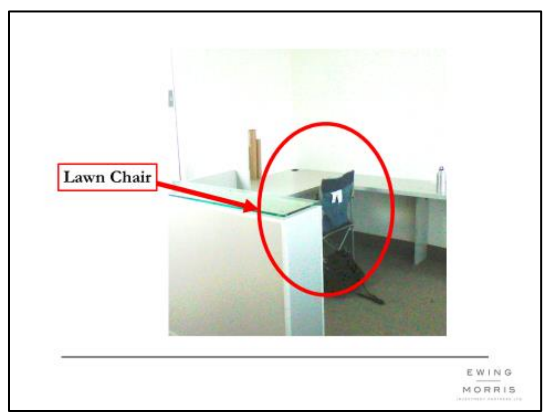
It is nice to see everyone here today. Thank you for attending our fifth annual investor day. Investors, friends and even some visitors from out of town have joined us.

The format today is the same as it has been in previous years. I am going to give a short presentation on the firm to provide a state of the union. Then, Randy Steuart and John Ewing are going to give presentations that provide some insight into our investment process. Alex Ryzhikov will join us for Q&A.

The objective today is to bring us together as a group and answer any questions that you may have about your investments or the firm. In the spirit of October Blue Jays baseball, you can throw fastballs at us, curveballs….just no beer cans please. But seriously, nothing is off limits and there is no such thing as a silly question.

I want to thank Jill Hamblin, who is still manning the table outside, but days like today do not organize themselves and Jill is always a great hostess. I would also like to thank Jenna Gillies. Many of you have met Jenna, who joined us last year and has been a wonderful addition to the team. Jenna has put together all the materials you will see in our presentations today and has also put together the booklet that you have in front of you, which is an in-depth case study of one of our investments – The Boyd Group ("Boyd").

This past September, we marked five years of investment operations at Ewing Morris. When we started, we had about $3.5 million in capital and little more than a good story to tell about how we would protect and grow that capital. In fact, we hardly had enough money for furniture. John Ewing was sitting on a lawn chair in the early days.



So while our furniture has improved, the guiding philosophies of Ewing Morris remain unchanged (and a lot sturdier than that flimsy lawn chair).

Ewing Morris was founded on a few key, simple philosophies:

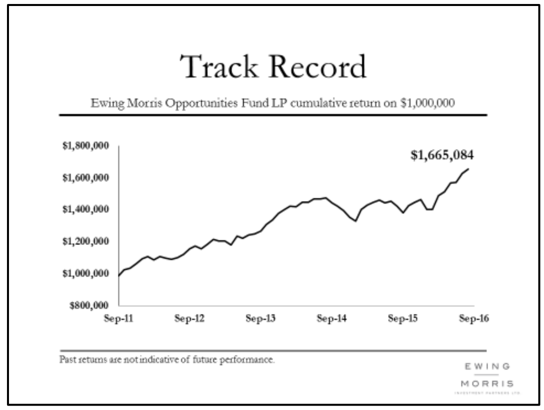
- Build a firm we would want to be clients of;
- Have a disciplined and understandable investment strategy; and
- Surround ourselves with high quality people.

These are the philosophies that have held us in good stead through these past five years and will help guide us through the next five years.

Today, my message to our group is that when you invest with Ewing Morris, your money is in safe hands. I really say this for three reasons:

1) It is consistent with our track record;
2) Consistent with the quality of people we work with on a daily basis; and
3) Consistent with our investors and their like-mindedness.

I will expand on these three. Over the past five years, we have delivered 10.6%[1] annualized net returns in the Opportunities Fund LP. Importantly, we think these results have been achieved in a conservative manner.



The Flexible Fixed Income Fund, under Randy Steuart's leadership, is off to a fantastic start having returned 12.4%[1], net of fees and expenses, since inception on February 1st of this year.

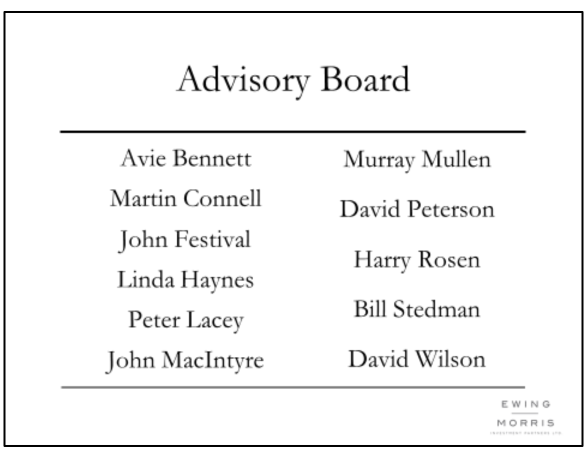
As we look ahead, we remain confident in our ability to deliver results that will meet our investors' expectations over time, and have reason to believe the next five years could generate even better results.

The second reason I believe your investments are in good hands with Ewing Morris is because of our people. Getting the right people into our system, and in the right positions, is one of the most important things we think

[1] As of September 30, 2016.

about on a daily basis. It starts with our service providers. Under Matt Irwin's leadership, we have outsourced many of our back office functions to someone else's front office where we demand their best talent.

It also relates to our valued Advisory Board, which we refer to as our elder council and who we lean on for guidance. All of our advisors have meaningful personal investments in both our funds on the same terms as all of our limited partners.



Internally, we have a youthful, but well-educated and experienced group of teammates:

- Four investment professionals with combined 31 years of experience managing money, all bringing diverse skill-sets and complementary personalities and working together;
- One full-time client services person in Jenna Gillies; and
- Three full-time operations professionals led by Matt Irwin, supported by Perry Schultz and Jill Hamblin.

We think we have the right team to succeed going forward.

We are sometimes asked, what is our long-term vision? I thought today I would give a couple of examples of firms that we really admire to put that in context.

Brookfield Asset Management. A firm that started here in Canada and has gained a global reputation as a top asset manager, having built a great track record of investing focused more recently on real estate and infrastructure.

3G Capital is another firm we admire. This firm was started by three Brazilians with the simple motto, "Dream, People, Culture". They have become some of the most respected investors and operators in the world.

And no surprise here, Berkshire Hathaway. Warren Buffet's company, with perhaps the greatest investment track record of all-time.

These organizations have three things in common - they were started by a small group of motivated outsiders, focused on investment results rather than gathering assets, employed a discipline but flexible and creative approach to investing, and all built enduring cultures.

When people ask about the Ewing Morris culture, I tell them we view ourselves as a meritocracy focused on:

- Working hard;
- Delivering results;
- Data-driven research;
- Bringing people together; and
- Hiring and promoting people better than us so that we are constantly increasing the talent pool.

We hold everyone accountable to acting like an owner-entrepreneur. This means we are committed to building our firm and our collective track record, rather than building our resumes. Part of that mentality is paying close attention to costs; we bunk up together when we are on the road and take public transportation when time permits. Both John and Randy are prolific coupon clippers, Randy prefers bonds and John prefers Harvey's and Tim Hortons! Other elements of our culture include transparency and candor. We have an open office environment where the daily course of business is: read, write, debate and repeat. And everyone has a responsibility to say something if they do not understand or agree with a particular course of action. At Ewing Morris we believe culture is a sustainable competitive advantage and we are doing everything in our power to build the right culture to help us succeed going forward.

The last point I want to touch on is that you, our investors, play a role in making sure our investments are in good hands. Our business was founded as an investment partnership for friends and family and we still take that same approach today. We are small enough to know all of our clients personally and we take pride in their achievements and contributions to society. We are also unique in that we have a group of limited partners that understand our objectives and have demonstrated the patience and loyalty to stay invested with us through what have been, and what inevitably will be, the ups and downs of investing in the public markets.

Today we manage roughly $155 million of capital and we have been fortunate to attract a great group of limited partners – comprising both the future generation of Canadian business leaders and current senior Canadian investors.

I want to go back to Ewing Morris' inception one last time. When we opened our doors in September 2011, it was in the midst of the Eurozone crisis and many people were fearful and uncertain about the markets.

Looking at the front pages today of the same newspaper, things do not look much different.

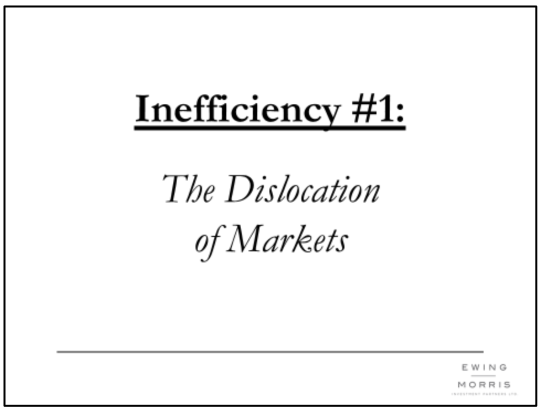
As a group, we need to remember that the future is always uncertain. At Ewing Morris, we address this uncertainty not by making macroeconomic forecasts, but by investing in a limited number of carefully chosen businesses run by people we trust, purchased at attractive prices with a long-term mentality. We think most of you agree and that is why you are here today. We owe you all a big thank you because your attitude and commitment make us better investors and help ensure that our collective investments are in safe hands.

Before I turn it over to Randy, I want to touch on one concept that will be brought up in both Randy and John's presentations. That is the idea of 'active management in inefficient asset classes.' I want to briefly explain what we mean when we talk about inefficient asset classes. The academic definition of market efficiency is that **"stock prices <u>fully</u> reflect <u>all</u> known information, making it impossible to earn above-average returns without taking above-average risks."** Let us be clear – at Ewing Morris we disagree.

We think that there are overlooked pockets of the market that exist, creating opportunities for industrious investors who know where to look. Randy and John are each going to tell you about their favourite pocket, and, hopefully, reiterate what my core message has been to you today; when you invest with Ewing Morris, your investments are in safe hands...Now let us hear from a pair of those hands, Randy Steuart.

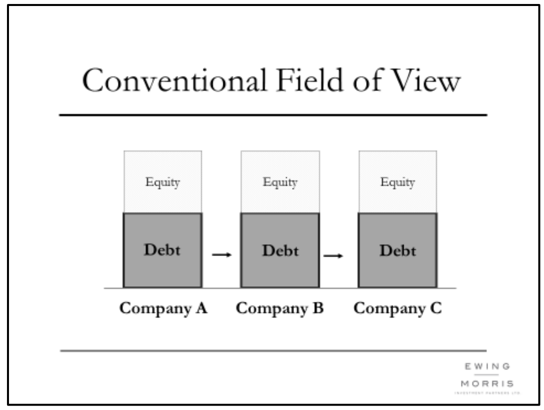
Randy Steuart:

Thank you Darcy. We believe the high yield asset class provides a great foundation to earn returns in a stable and steady fashion. The market is very deep, having grown to more than $2 trillion in size. Further, it has delivered good downside protection, all the while returning an average of more than 8% annually over the past 30 years. Despite its growing popularity, the asset class has actually moved against the general trend in capital markets by becoming less efficient over time, which may come as a surprise to many of you. While high yield is inefficient in many ways, today, we would like to examine two important kinds of opportunities we are finding in the market and explain how they come about.

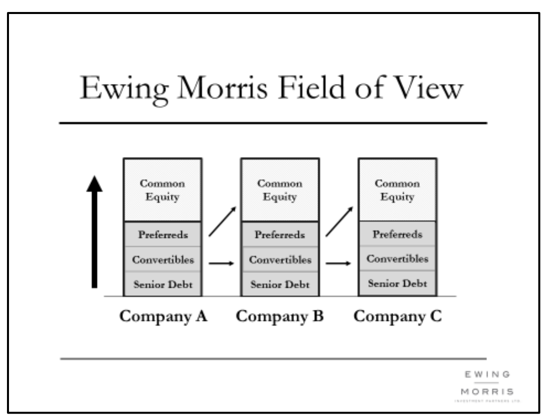


First, we are finding opportunities that exist at the intersection of debt and equity markets.

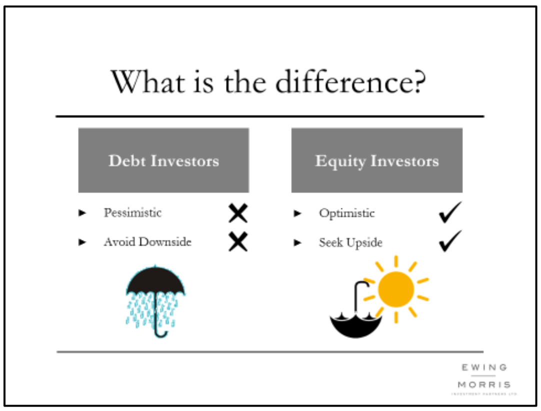
As we illustrate here, most fund managers have a field of view that looks something like this, where expertise is asset-class specific and spread horizontally across different companies and sectors.



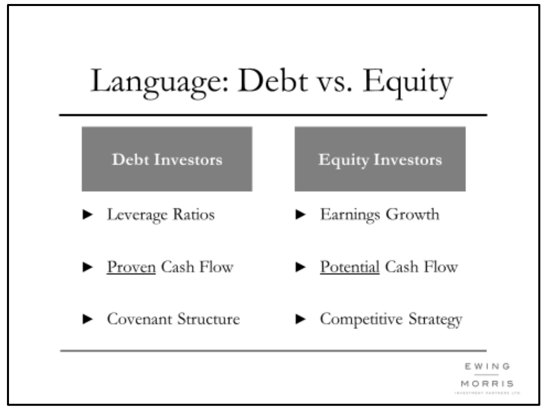
On the other hand, at Ewing Morris, we add an additional dimension to this field of view by looking vertically through a company's entire capital structure evaluating investments from senior debt all the way through to common equity. In doing work in this way, it reveals a large divide in the style of investment research performed by debt and equity investors. These two markets are very different because they represent distinct groups of people, communicating about different things within different parts of a bank or investment firm.



To illustrate these differences in a more colourful way, we thought we could have some fun and assign stereotypes to each of these groups. You can think of debt investors as a group of pessimists who seek to avoid any hint of downside and you can think of equity markets as a group of optimists seeking relatively high upside scenarios.



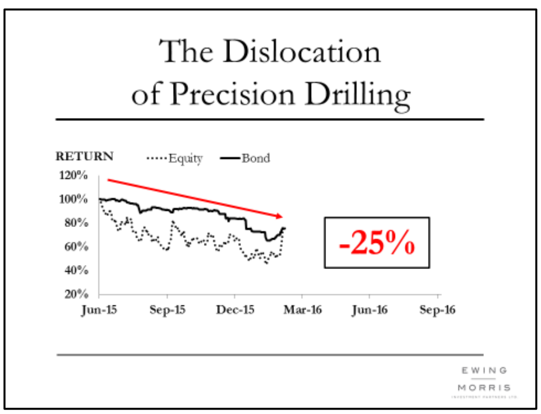
It is not just an outlook that separates these groups, it is language as well. Debt investors speak in the language of leverage ratios, proven cash flows and debt covenants whereas equity investors speak in the language of earnings growth, potential cash flows and competitive strategy.



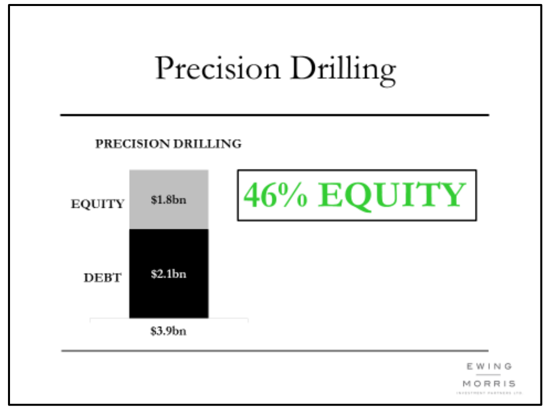
We also know that markets can sometimes make people feel like they are on a rollercoaster and, along the way, certain groups of people – like debt and equity investors – might experience the ride differently.

Can you spot the debt guy? Now, most of the time, debt and equity investments in a particular company will be priced in agreement with each other, but at certain times they can be saying completely different things like here in the photo. We see this kind of situation as a valuable opportunity for the small community of bilingual investors who are trained to spot it.

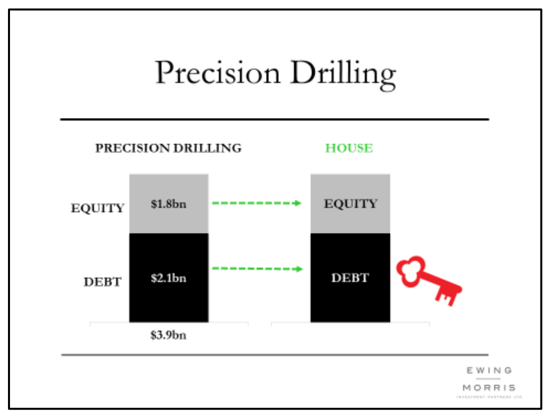
Over the last two years, the energy markets certainly were a rollercoaster and we will take Precision Drilling, an energy services provider, as a good example of this type of opportunity. In March, we found the bonds and equity of Precision at great odds with each other. As you can see, over the prior nine months, Precision's stock fell about 25%. On the other hand, its bonds were also down 25% in this same time period. For those who pay attention to how debt and equity are valued relative to each other, this was highly unusual.



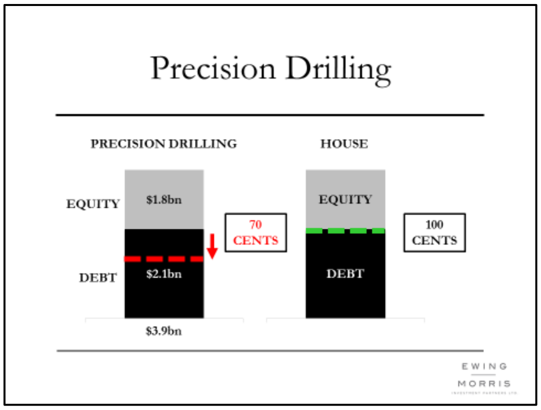
Here is why: If we look at Precision's financial makeup, we can see a reasonable mix between debt and equity.



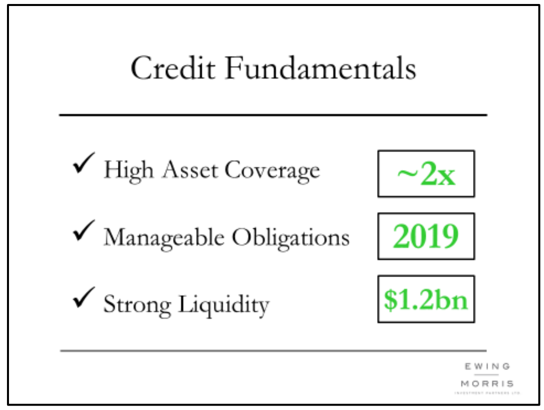
Along a similar line of thinking, if you saw a house with the same debt and equity mix, and you are the bank holding the mortgage on this house, you know it is your right to take the keys if the mortgage is not being serviced.



So, if a house is worth around $3 million, for example, you probably should not think a $2 million mortgage is really risky since you should get your 100 cents on the dollar back even if you had to foreclose. However, instead of being valued at 100 cents on the dollar, Precision bonds were trading in the market around 70 cents on the dollar.

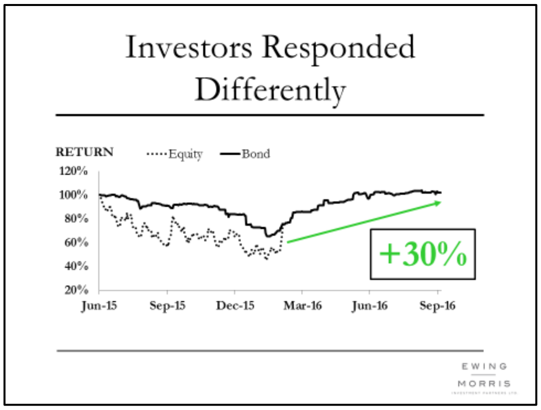


On the surface, it did not make much sense, particularly in light of how much value the equity market was placing on the business. It looked like an opportunity. We then looked at the credit fundamentals of the company. What we found was that the company was servicing its debt without burning any cash flow and its nearest debt coming due was a modestly sized bond of $200 million maturing in 2019, three years away. Between the company's cash balance of more than $400 million and its available lines of credit, it was very clear that Precision had this upcoming bill well-covered. This indicated to us that the chance of bankruptcy at Precision Drilling was actually quite low and that the bonds were far safer than the market was thinking.

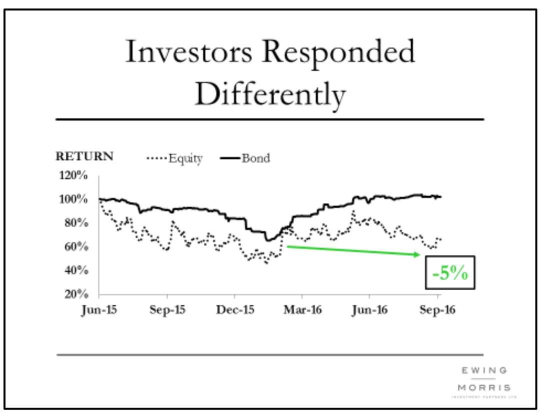


We thought debt investors were overly pessimistic and equity investors were looking relatively optimistic on the future of the company. Therefore, we bought Precision's bonds at 71.5 cents, priced seemingly for the worst and hedged this investment with Precision's equity, which was priced for fairly sunny days, at $6.30.

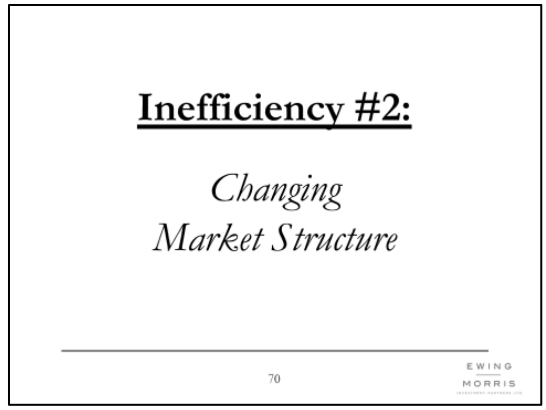
Well, what happened? In the ensuing four months, oil rallied 10%. Now, in normal times, we should expect the bonds to be up a few points on this, but because the bonds were priced so pessimistically, they saw a return of 30% to 92 cents where we sold them in July.



On the other hand, Precision's equity valuation proved too optimistic and its stock price actually fell modestly over this same time period, netting us a small profit on our hedge.

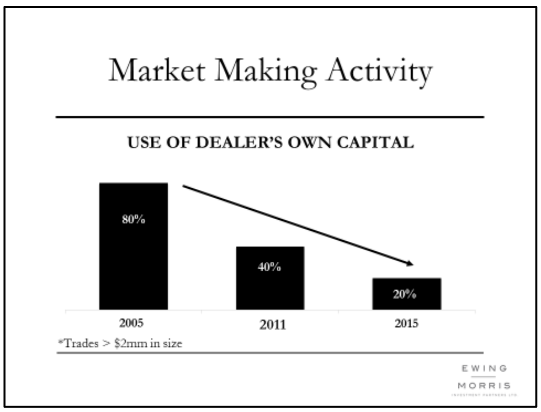


This was akin to having insurance on your car, driving your car around for a year, not getting into an accident and then, at the end of the year, getting a cheque in the mail from your insurance company. We received the benefit of risk reduction and were paid for it at the same time. We hope this case study demonstrates that, being able to invest in a cross disciplinary way in carefully selected situations, we are able to access the attractive return offered in bond investments without bearing the same risk that a more conventional investor takes.



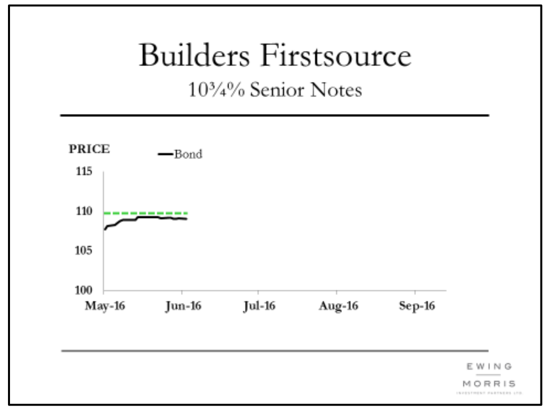
A second inefficiency we profit from comes from changing market structure. As headlines have suggested, investment dealers have transitioned from buying bonds with their own capital, an exercise also known as 'market making', to simply becoming matchmakers, trying to line up buyers and sellers and taking a small fee with no risk.

This has happened because of regulations passed after the financial crisis which made it more expensive and difficult for dealers to make markets. When you combine this lack of market making with the growing presence of retail investment funds like mutual funds and Exchange Traded Funds ("ETFs") which, importantly, promise immediate liquidity to investors, the result is that we are seeing short-term volatility in fixed income markets.



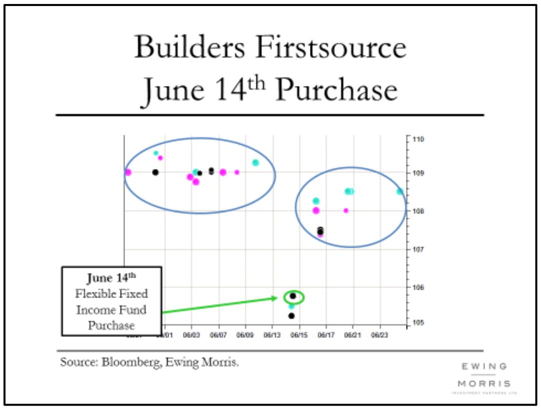
While this dynamic provides wonderful opportunities, which we will show in a moment, we also want you to know that we generally avoid the ownership of widely held bonds like the ones held in the major two high yield ETF's, with currently less than 10% of the Fund holding these types of bonds which can be more volatile than others.

We have been following Builders Firstsource bonds since 2015, when the Ewing Morris Opportunities Fund invested in Builders' equity. Builders is a leading North American building products distributor. As you can see here, Builders' bonds had been trading at about 109 for some time.

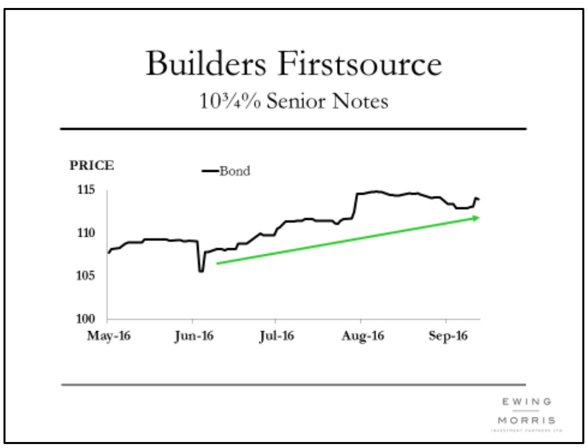


On June 14th of this year, amid heavy selling pressure in the market combined with a large outflow at a major ETF, Builders' bonds became available under 106, where we purchased a 3% weight.

This is a close-up of individual trades happening on those bonds that month. The purchase circled in green was us. Since our purchase, it took about two days for the bonds to trade back to the mid-108 range, which highlights that we were capturing a liquidity discount only offered for a brief period. It is likely that this bond just fell through the cracks and we were the only bidder showing up at the auction block that afternoon.



In addition, our positive view on the business has been playing out, with the bonds trading above 114 today.



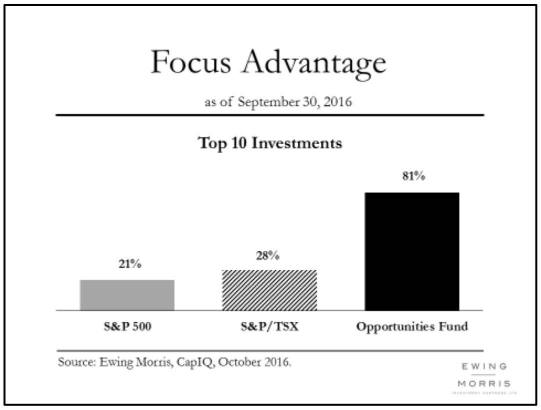
To conclude, it is not many places in the capital markets that you can say that the market has become less efficient. We believe that is the case here, and we think the advantages through our flexible mandate, cross-disciplinary team and alignment puts us in a unique position to execute in this niche and earn returns safely for you. With that I will turn it over to John.

John Ewing:

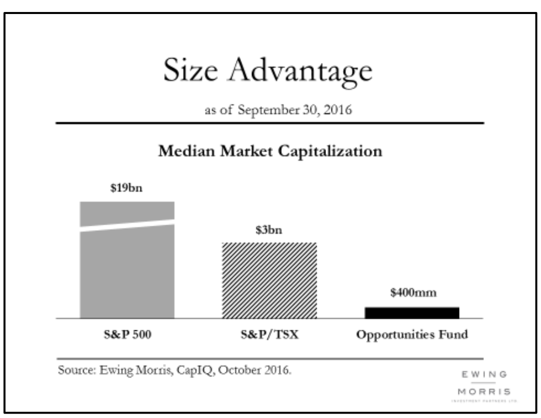
In case a few of you have been skipping the front page of the newspaper and going straight to the sports section to follow the Blue Jays' play-off run, I wanted to make sure you are aware that a lot of people are worried about the world. Here are some representative headlines:

I think the silver lining of all this uncertainty is that, when you are invested with Ewing Morris, you do not actually own "the market"; you own a concentrated portfolio of wonderful little businesses, most of which you have never heard of before. Because we are mathematically inclined analytical types, I thought I would prove that point with some numbers.

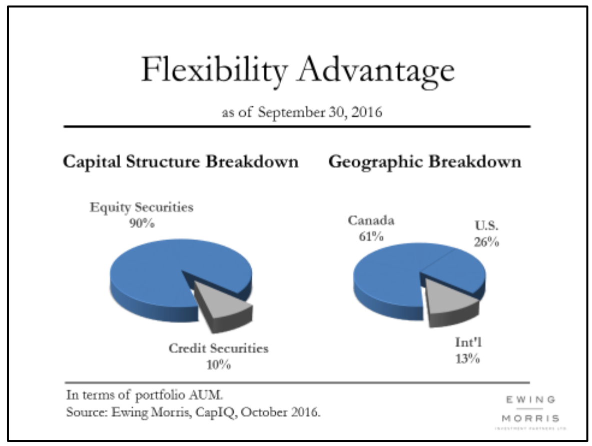
Unlike the market, at Ewing Morris we are focused. The ten largest companies in the S&P 500 account for 21% of the index, the ten largest companies in the TSX Composite account for 28% but the ten largest investments in your portfolio account for 81%. We do not own "the market".



Unlike the market, at Ewing Morris we are focused on smaller companies which are more likely to be overlooked and misunderstood. The median market cap in the S&P 500 is $19 billion, the median market cap in the TSX Composite is $3 billion, but the median market cap in your portfolio is $400 million. We do not own "the market".



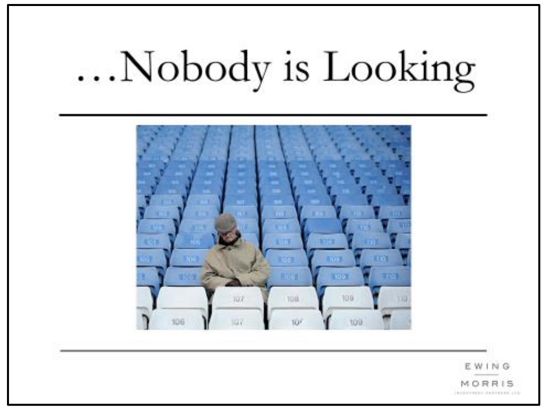
Unlike the market, at Ewing Morris we are flexible. Companies outside North America represent 13% of the portfolio and fixed income securities represent another 10% of the portfolio today. That is almost a quarter of the portfolio that looks nothing like a North American equity index. We do not own "the market".



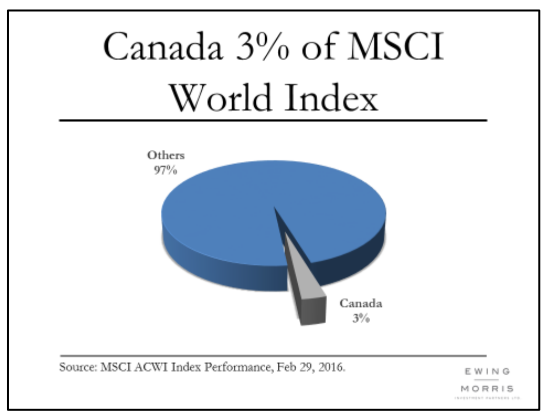
By now, hopefully it is clear; we do not own "the market". Which begs the question, what do we own?

- We own some wonderful businesses, many of which have terrific management;
- We avoid leveraged balance sheets; and
- We pay careful attention to valuation.

This usually leads to the question, where do we find them? Darcy spoke a little bit about the idea of inefficient asset classes and gave you an academic definition. I thought I would define it in a different way with a more personal story. Many of you know that I was involved with the sport of wrestling for a long time but, what many of you probably do not know, is that I was not always the strapping young man that stands before you. In my first high school tournament I competed at the 97 pound weight class and I was not all that shorter than I am today. The result was that I came home with the gold medal. I would love to tell you that I dominated the field but, in reality, I was the only person that showed up; I received the gold medal by default. We have a saying around the office that, if you want to be the smartest person in the room, it helps to go find an empty room. We are trying to do the same thing with markets: go find an empty market where competition is less and the opportunities are greater. My favourite inefficient market is Canadian small cap, excluding resources. Why is Canadian small cap so inefficient? The simple answer is that nobody is looking.



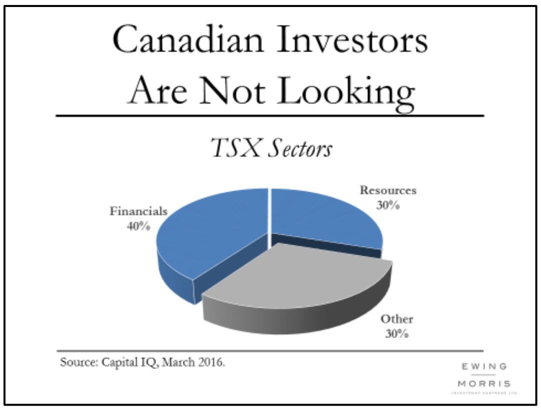
Global investors are not looking. Canada represents just 3% of global market cap, so it is easy to overlook. Nobody running an endowment in London or New York is being hassled by their investment committee to have more exposure to Canada; they are being asked about things like infrastructure and emerging markets.



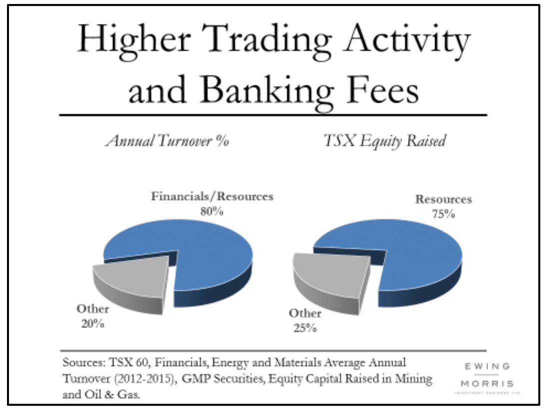
When global investors do come to Canada, they are normally seeking resource companies. For example, Berkshire Hathaway owns one

Canadian company…Suncor, our largest energy company.

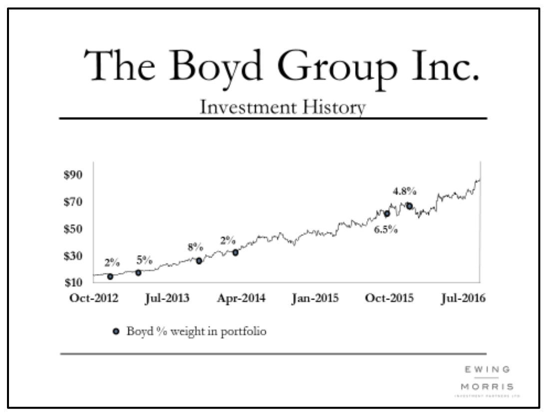
We do not think many Canadians are looking either. Our markets are dominated by two sectors, financials and resources that, together, account for 70% of total market cap.



These two sectors generate an even larger share of trading and capital raised, in other words, banking fees. It should not be surprising that Canadian investment banks allocate most of their resources and talent into those areas. That means that our investment team is very unusual in Canada. There are not many people that have been trained to analyze and understand regular businesses such as distributers, manufactures and retailers. This skill-set that we have is unique and its scarcity is what makes this market really inefficient.



Today, we have provided you with a case study of a wonderful little Canadian company called The Boyd Group which also happens to be one of our most successful investments.

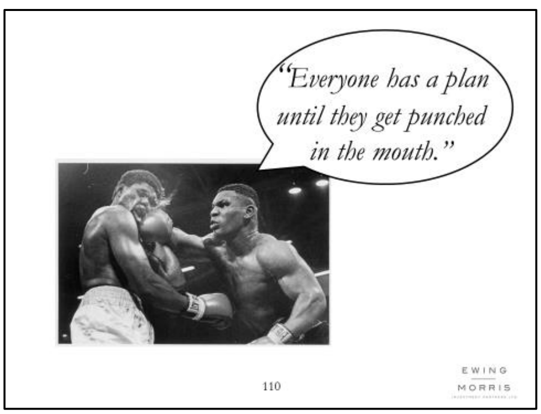


Boyd is a North American leader in collision repair centers. It is not a sexy business, but it generates solid margins, high returns on capital and has grown consistently over time. You can read all about Boyd in the book, but the question I want to answer for you is, "why was Boyd available at such a good price?"

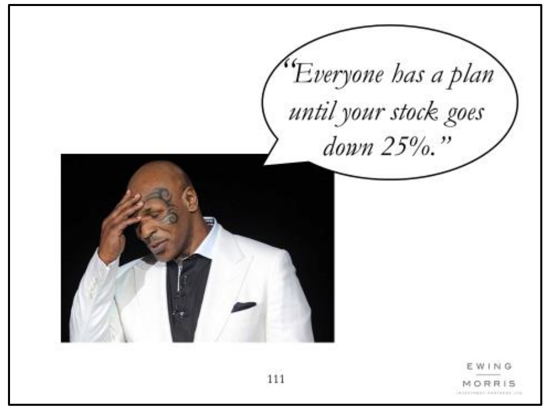
When we found it, Boyd was small and out of the way. The company is headquartered in Winnipeg, not Toronto, Vancouver or Calgary and operates in an industry where all of its peers are owned by private-equity, with nothing for analysts to compare it to. There was also limited sell-side coverage. Boyd is exactly the kind of company Ewing Morris has been designed to find.

But not all the stock charts are going to look like this one. Sometimes stocks go down. That is especially true in turbulent times. It is what you do next that counts most.

Mike Tyson once said that "everyone has a plan until they get punched in the mouth."

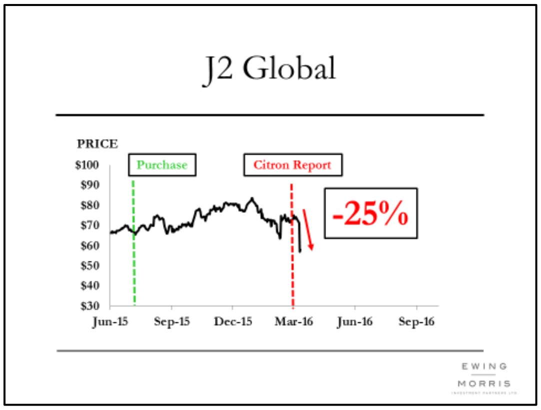


Now if Mike Tyson had been a portfolio manager, he probably would have said that "everyone has a plan until your stock goes down 25%."



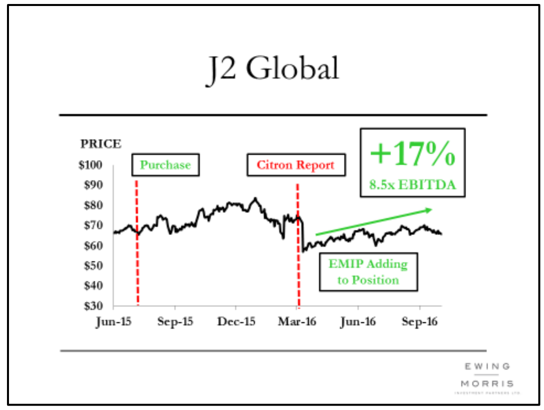
When a stock price declines, it could either be a sign that you are wrong, or it could be a source of opportunity. It is not always easy to tell the difference.

J2 Global is an example of a sell-off creating opportunity. J2 Global provides IT services to small/medium businesses and also owns a digital media portfolio. It was Alex Ryzhikov's keen eye that originally identified the company as a potential Great Capital Allocator. While we were building our position, Andrew Left of Citron, the short seller who received credit for identifying key accounting issues at Valeant, published a scathing attack on J2, sending the share price down 25%.

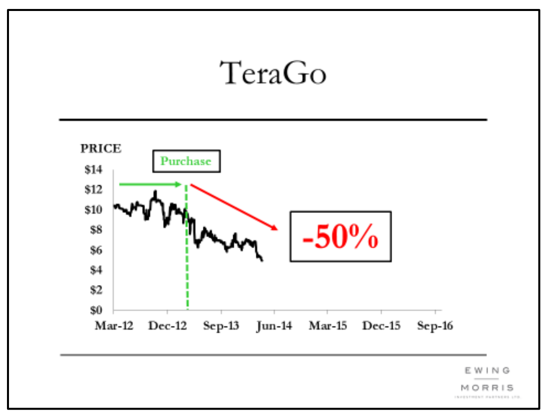


This was a real all hands on deck moment at Ewing Morris where we had to assess the new information that was available and try to form an opinion. After a lot of effort spent assessing the new information, speaking with management again, former employees, and people who had done business with the company, we concluded the allegations were groundless and our original thesis was intact. We took advantage of the opportunity to increase our investment substantially, making J2 the largest holding in the Fund.

The stock has already rebounded by 17%, but we think the valuation remains attractive for a company growing 20% annually. I think that adding to J2 in March will prove to be the smartest decision we made in the last year.



I think it is important to remember that, just because a stock goes down, does not necessarily make it a buying opportunity. A mistake we have spoken about in the past is TeraGo. This is a stock we bought at $10 only to see the price decline 50% in short order.



The facts had changed and we sold. This was a good decision since the stock has barely budged since, continuing to trade at about $5 while the portfolio rose in the same period.

We are almost ready to take your questions but, before we do, I want to conclude by reminding you that, although it would be nice, stocks do not march upward at a steady pace. The future is uncertain and markets are inherently volatile. Despite that, we think your money is in good hands when you invest with Ewing Morris because we:

1) Do not own the market;
2) Do own some wonderful, overlooked businesses; and
3) Know how to handle adversity.

We cannot guarantee results but we do have all our money invested alongside yours and I am confident our best years are ahead of us. Thank you for your confidence, trust and support.

QUESTIONS FROM THE AUDIENCE

Question:

Do you ever hedge across the two funds?

John:

While there is an overlap among investors in both funds they are run independently. That being said there has been terrific cross-pollination of ideas between the two funds. The Opportunities Fund has had as much as 15% invested in fixed income securities and these were collectively a large driver of returns in the last 12 months. Randy has provided valuable insight that helped us make these investments.

Randy:

If we are willing to own the equity of a company it is a pretty good sign that we do not think the company is going bankrupt which means the same company's debt might be interesting too. Along these lines, we have bought several bonds in the Flexible Fixed Income Fund issued by companies we own in the Opportunities Fund. A second factor is that traditional fixed income analysis is primarily focused on financial analysis. John and Alex can often provide helpful insight about long-term risks, like 3D printing, facing a company. Having both asset classes and both perspectives really fortifies our analysis.

Darcy:

I will just touch quickly on the different objectives of the two funds. The objective in the Opportunities Fund is to compound money at 15% per year and we underwrite our investments on an IRR basis. On the Flexible Fixed Income Fund side, the objective there is to target capital preservation with 5-7% net returns. Therefore, it really depends on how you want to allocate your money; if you are okay with volatility and are taking a longer term perspective on your investments, it likely makes more sense to be equity driven. If you are concerned in the short term about the stability of your investment and maybe you have income requirements from that money, it would make sense to be in the Flexible Fixed Income Fund where there is a fixed upside, but there is a contractual obligation that the money will be paid back.

Question:

It sounds like the sweet spot for you is Canadian business. If I were an investor, maybe not in the room at the moment, looking at international opportunities, I might conclude that the best place for me to invest would be Canada based on what you are saying. If that is true, do you anticipate competition from other investors who would like to be in this room too?

John:

One challenge is that it is inherently a small market that might not be attractive for someone managing a large pool of capital. Another challenge is on the ground expertise. We have a great network in Canada, including the people in this room, which can often provide a lot of insight about the people running companies. I think this provides us with an edge compared to smart people sitting in New York trying to invest in smaller Canadian companies.

Alex Ryzhikov:

There is certainly nothing that prevents others from looking at Canada, although as John mentioned, we have some advantages on the ground here that are hard to replicate. However, we do have the flexibility to not be constrained to Canada. As John showed in his slide, we have almost 40% of the portfolio outside Canada today. We think our process works to generate attractive returns for our clients outside of Canada.

Question:

Maybe a follow up question to that is given your style of strategy, how big do you think you can get assets under management before you give returns away?

Randy:

With the high yield market being in excess of $2 trillion dollars, it is certainly a deep market. From the perspective of capacity, the strategy that we employ is one that is investment oriented not trading oriented, which makes it modestly more scalable than a trading strategy. When you look at the portfolio today, the average bond outstanding that we own is $400 million dollars and we have $1.5 million on average in those investments. You can imagine how liquid that is, it takes basically one phone call to get in or out of a bond. We see the capacity of the fund certainly in the several hundreds of millions of dollars, perhaps below $1 billion, but there is a lot of scalability in the Flexible Fixed Income Fund with the high yield asset class.

John:

A broad principle is that we believe the last dollar invested in a fund should receive the same experience as the first dollar which means you need to close funds ***before*** size begins to impede returns. In terms of orders of magnitude, I think the Opportunities Fund would likely close between $250 and $350 million. Prior to co-founding Ewing Morris, I was a key contributor to a Canadian small cap fund at another firm. That fund had a much narrower mandate and was successfully managing over $400 million when I left.

Question:

You mentioned some companies you look up to such as Berkshire and, as you know, they went from buying cigar butts to buying control positions and whole companies. Have you ever thought about moving in that direction at all?

Darcy:

We will look to broaden our investment strategies as long as it is consistent with the idea of 'active management in inefficient asset classes'. The story of Randy joining Ewing Morris and launching the Flexible Fixed Income Fund is instructive in the sense that if we can fulfill our investors' needs, can do so in an inefficient asset class where we think we have an edge and can attract a person who is the right fit with the right skill-set, then we are flexible to that. If it meant expanding to taking more control positions we would not rule it out.

John:

The Opportunities Fund has the flexibility to be invested in private companies. I do not think the Fund is really set up for that to be the core focus. Similar to what Darcy said, if there was a match between talented people with an interest in being part of Ewing Morris that we thought was a good fit in the way that Randy joined, then is it conceivable that there is something like a private equity angle to Ewing Morris. It would be intellectually consistent, but would be entirely driven by the right people.

Alex:

Maybe the question is whether we would be open to taking larger equity stakes in the business and influencing the direction that business takes. In Buffet's case, clearly the playbook has had to change because the assets that he is managing now have grown to such a size that what he was doing before did not work. That is part of the reason why putting a limit on how much assets you can manage and still use your tools, is an important framework. Certainly, we are open to finding situations where we think we can add value to a Board, likely around capital allocation decisions where a number of Boards unfortunately lack. If we find those situations, we are more than willing to execute those as well.

Question:

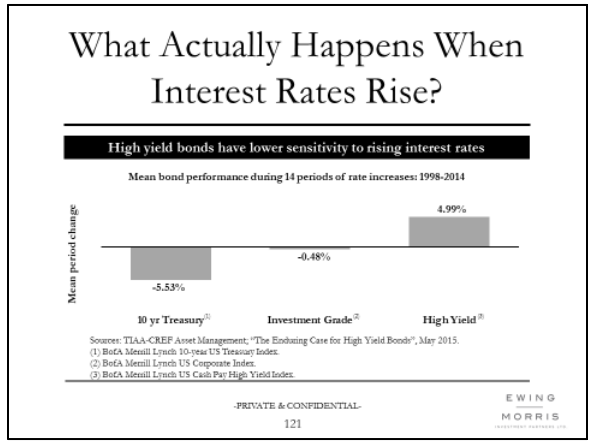
One of John's slides quoted the Wall Street Journal, "investors are worried about interest rate risk". How do you guys think about interest rate risk on both the Opportunities Fund and Flexible Fixed Income Fund?

Darcy:

I think interest rates are on the minds of everyone and, when you read the front pages of the business news, it is there almost every day. If you had asked us when we started where rates would have been, we probably would have guessed they would be up from 2011 and they have actually been down, so you cannot predict these things. Interest rates have a similar effect to gravity on asset prices so as rates go down, asset prices go up or they inflate. It is absolutely reasonable to think that, if there was a reversal on monetary policy or if rates were to start rising, the opposite would happen. That is something we take into account when we make our investments.

Randy:

A key differentiator that we have in the Flexible Fixed Income Fund is that we focus on the high yield bond market. This slide demonstrates the evidence over the last decade about what happens in high yield and the rest of fixed income when interest rates rise. What it shows is that not only does high yield outperform other sub-segments of fixed income like government bonds and investment grade bonds, it actually produces a meaningful positive return. A more recent example of this was in the United States, where interest rates rose between July and September, and high yield, including the Flexible Fixed Income Fund, produced a 3% return over this period. We think that high yield is the place you would want to be if you are concerned that interest rates will rise. You might be wondering why a fixed income product would move in the opposite way you think it might when interest rates rise. The reason is that high yield is focused on credit analysis and the corporate credit risk that you are taking. The dynamic that happens when interest rates are rising is that there are better expectations of the economy or inflation, therefore companies are usually doing better or are less risky. If a company is less risky, then the market accepts a lower rate of return, say from 8% to 7%, on the high yield bonds, and that makes the bonds trade up in price. That is why you see high yield produce positive returns, generally, in rising interest rate environments.



John:

I think that it would be awfully difficult to make a case that the broader markets are obviously cheap. If you believe that current interest rates will persist for a number of years then you could make a case that stock markets are fairly valued, but if you believe that interest rates will rise in the next few years, it will likely prove, to Darcy's point about gravity, that broader markets today will have been overvalued. I think it is prudent to assume the rates will rise scenario and be pleasantly surprised that valuations held rather than the opposite. Again, I would go back to the key message of my prepared remarks that, although rising rates might be a negative for broader markets, the portfolio we own is not the broader market. It is naïve to think that we own the only 10 companies that will not go down in a market decline but the underlying businesses are not broadly connected to overall markets and economy and I think that provides insulation to some degree.

Alex:

Just quickly, if you look at the portfolio today, a large portion is invested in what we call Cheap Assets, which are expected to be monetized in three to five years and usually closer to three. In fixed income parlance, these have low duration or low sensitivity to interest rates. I think we have reason to believe that today our portfolio is less sensitive to movements in interest rates than it would have been historically.

Question:

What is the current percentage of insider assets?

Darcy:

18% of the capital that we manage is capital from insiders or shareholders of the firm.

Question:

Do you ever decline investors based on short-term mentalities?

Darcy:

Absolutely, it happens occasionally and I think it is underappreciated in our business how important the investor base is and making sure everyone has the right mindset. The mental fortitude to stay invested during inevitable periods of underperformance as long as we maintain our process is really important. There have been circumstances where it probably was not a good fit.

Question:

Are there any procedures in place to communicate with your investors?

Darcy:

Many people are aware that we send quarterly letters. Part of building a firm we would want to be a client of is communicating candidly and transparently. Today's annual meeting is part of that process and we try to make sure everyone feels comfortable asking the questions they might have. The booklet that you have in front of you is quite proprietary and I do not think I have seen anything like that from another firm. We think it is quite important to tell you about our investment process and "open the kimono" as they say.

Question:

Related to that question, I am curious if you have a sense of what percentage of your investors' portfolios are invested in Ewing Morris.

Darcy:

It varies. As John mentioned, the four of us would have 100% of our investable assets invested. There would be a few other people like that as well and then it would go down from there. We do not put a hard minimum on the amount invested, but what we ask is that people make a meaningful investment so that we can do a good job in a meaningful way. For us, when the Fund makes an investment, we look at 5-10% positions and so I think that is a reasonable framework. People who do not know us that well might start with allocating 5-10% of their investments with us and grow over time.

Question:

How much investor turnover have you had since you have opened the door?

Darcy:

There has been very little turnover. I am not sure exactly what the number is but, in terms of client retention, it is in the high 90's percentage-wise.

Question:

Speaking of turnover, turnover in your portfolio is something you are probably not much interested in, you want to buy companies and hang on to them. I also suspect people ask what you do all day, every day, if you are not buying and selling. How do you prevent yourselves from doing something because you need to do something as well as have dry powder to be able to do something opportunistically?

John:

I think it is important to remember the investment framework, or the four plays in the Playbook. You have the Great Business, the Great Capital Allocator, the Cheap Assets and the Broken Businesses. The Great Businesses and the Great Capital Allocators are the kind of companies that are compounders that can grow value; double, triple and quadruple capital over time and you want to be along for the ride. We are very reluctant sellers of those kind of businesses and there is not much turnover. There are a couple of those types of investments that we have held since the beginning and continue to hold today, five years later. If you turn to the Cheap Asset portion of the portfolio, Alex alluded it to it earlier, these are companies we think are worth a dollar and are trading at 50 cents today. We invest with the expectation that it could take up to five years for that gap to close and, if it takes five years, then your return will be about 15% per year. If the gap closes sooner, then the return percentage will be higher. These also tend to be not as high quality businesses; the management team is not necessarily as high quality as we find in the compounders, so we do not usually want to hold out for the last nickel. If you bought a 50 cent dollar and it has gone up to 80 cents, it might make sense to sell it there and buy another 50 cent dollar as opposed to waiting for the gap to close. Hence, the Cheap Assets would turnover more often that the compounders do. That informs the way turnover works.

Randy:
If you think about fixed income securities, they are not exactly compounders, they do not ever go to the moon, they pull back to par. In addition to that, you are receiving cash flows every six months, so you are being returned capital to you to deploy. For this reason, the turnover of the Flexible Fixed Income Fund portfolio looks a lot like the Cheap Asset turnover in the Opportunities Fund.

Alex:
Our sell-side partners would say that we have become pretty good at saying "not interested" when they call with a new idea. We try to act when we have a decent thesis.

John:
In addition, we turnover a lot of rocks. The research process is first, Idea Generation, and second, Filtering, which takes usually an hour or two, maybe half a day, to quickly assess whether the initial idea seems to hold water. If you get past that stage, you go into the Deep Diligence phase, which is where you are doing really detailed work on the company; you might read books about the company's history, visit management, look back at ten years of annual reports, speak to customers, suppliers and competitors - this is the process that you will see in the Boyd book. The deep diligence takes a lot of time and is a scarce resource. As most ideas we have are dumb ideas, but you just do not know why yet, the Filter stage is really designed to figure out why that idea was a dumb idea so we can move on to find the next compounding idea. I would say for every 20 ideas that we have, 18 or 19 are killed at the

Filter stage and another of the two that get through to the deep dive stage, one out of those gets killed as well. We do a lot of looking just not a lot of acting.

Darcy:
For context, part of that is building the institutional knowledge in the firm. Where we might act rarely, we are constantly doing work on businesses and we track them on what we call our 'Wish List'. Similar to if you are on Amazon.com and you like what you see, but you do not like the price, you would track it on your wish list. If you were to come and visit us during the day, there is lots of work being done on companies and often it is being stored with a way to track it if it comes into a price area that we believe is attractive. We have software that will alert us so we can re-open that file and do a deeper dive.

Question:
If, in the next 12 months, $100 million dollars came into the Opportunities Fund, how would you manage that money and the deployment?

John:
I think it would be very difficult if it came in in one shot tomorrow, to deploy comfortably. I think if it came in a more even manner, spread out in a semi-random fashion, then the bulk of the large holdings in the Fund are really good ideas, which is why we have 80% of the capital in those 10 ideas and, generally speaking, they are sufficiently liquid for our purposes. They might not be liquid for someone who is managing $10 billion but they are liquid for our purposes. I would generally be comfortable having the same proportion of the Fund invested in those companies.

Question:
Would you ever look at an oil and gas company in the Opportunities Fund and, if you do, what is your view of that sector now?

John:
We do, is the short answer. I think there is a flippant line about energy companies that, if you can tell me what the oil price is going to be, then I can tell you what it is worth. So you have to have some broad opinion on the underlying commodities when you invest in a commodities business. I think, over the longer term, oil price will probably average between $60 and $80 a barrel so you are probably closer to a bottom than a top coming from $50 oil today. Is oil more likely to be $60 or $40 a month from now, I would say we have no idea. When we have made energy investments in the

Opportunities Fund, we have, generally speaking, looked for ideas where the downside is relatively limited and capped and where there is asymmetrical upside. One of the larger energy investments we have are the bonds in a company called Calfrac where we think that, if they were to file bankruptcy tomorrow and auction off the assets, you would get pretty close to the current market price of the bonds. I do not think there is a lot of downside here and that is true even after a fairly meaningful rally this year. However, if activity were to pick up and things would get better, then the bonds are probably worth par versus the 70 cents where they trade at. We look for asymmetries like that where, if things go wrong, you do not lose much if any and, if things go right, then you will have a good outcome. That is broadly how we have invested in energy. Energy collectively would represent a shade under 10% of the portfolio today so it is not a major portion of what we are doing.

Randy:

Fixed income as it relates to energy is a little bit easier in terms of not actually having to hold the firmest view of where oil prices are going. Investments in debt are just contractual obligations of the issuer to pay you back at 100 cents. Its financial capacity to do that in many cases is not particularly contingent on what the exact price of oil is. We took advantage of dislocations in energy markets earlier this year, particularly in the investment grade bond space where portfolio managers were caught off guard and debt downgrades were forcing them to sell bonds which we were able to purchase at good prices. Energy is certainly a place that can provide good opportunities in fixed income; they do not come around that often, but there is a place for that.

Question:

You mentioned Precision Drilling and the bond position. The idea of hedging the bond with the company's equity has some merit, however, you are taking a long position in a bond which has limited upside and a short position in a stock which has unlimited downside. Say in the case where oil prices went up 10%, they had gone up 50% in that same period and the equity actually rallied rather than fell, how would you manage that risk.

Randy:

When you look at high yield debt, there is a visible relationship to how it trades versus the company's equity, which can provide a measure for an effective hedge ratio. For example, when there is a poor earnings release, you will commonly see that the bonds are down 2 points and the same company's stock are down around 6 points on that same news. In other words, if the stock is 3 times as volatile as the bonds, then you can take an offsetting position in that stock of 1/3rd. So, if something unexpectedly negative happens, it is basically a non-event as both positions cancel each other out and you still receive the bond's coupon. That is the design of the investment strategy. We screen for these relationships quantitatively, to find where differences in opinion between debt and equity exist.

Darcy:

We did have a situation where a stock that we were short in a position on a long bond was up 100% this past year and we still made money because of the ratio we were invested in it.

Question:

Is there a different amount of diligence for a Cheap Asset and a Great Capital Allocator and do you do a full deep dive on a Cheap Asset.

John:

Yes we do. The thing with the Cheap Assets is that they tend to be smaller position sizes, call it 2-5% position sizes, whereas with the compounders, we are focussed on a 10% position size. I think complexity is often a source of opportunity, but it needs to be one time complexity so a Cheap Asset that is in a business that is very complex, such as a bank, that has a 400-page Annual Report and you need to refresh all the numbers every quarter. That is not a great use of time for a Cheap Asset which is inherently going to be a smaller use of capital. The Cheap Assets that we are interested in tend to be relatively simple businesses by nature, so a deep dive on a simple business makes the time return ratio work.

Alex:

I think there are just less things you need to get right to make money with a Cheap Asset as a general rule than you do with a compounder that you expect to own for five to ten years. Although the work is deep, I think the time spent tends to be less for Cheap Assets, per idea, then it is for Great Businesses.

Darcy:

Cheap Assets are generally more quantitative and Great Capital Allocators are really qualitative. We are gathering circumstantial evidence when we are investing in a Great Capital Allocator, which is really investing in a person or a group of people, so that process is never-ending. Cheap Asset investments are more like flipping a house rather than finding a house to live in for the next 30 years.

John:

Thanks for joining us everyone and, again, we appreciate your trust and confidence.

ABOUT EWING MORRIS:

Ewing Morris & Co. Investment Partners Ltd. is a value driven Canadian boutique 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 North American small-capitalization companies and high yield bonds. We manage investments for individuals as well as charitable organizations, institutions and corporations.

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