



Flexible Fixed Income Fund LP

An investment partnership managed by Ewing Morris & Co. Investment Partners Ltd.

Investor Presentation October 2018

Ewing Morris & Co. Investment Partners Ltd.
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Who is Ewing Morris & Co.?

Our Firm

- ▶ Toronto-based; founded in 2011
- ▶ Manage \$344 million for individuals & institutions
- ▶ We are our biggest client (\$50mm)
- ▶ Partner-owned firm; no succession risk
- ▶ 6 investment professionals; 75 years of cumulative experience

Our Philosophy

- ▶ Target less competitive market niches (small cap stocks, high yield bonds)
- ▶ Capital preservation is top priority
- ▶ Business analysts, not traders

Experienced Team

6 Investment Professionals with 75 years cumulative experience

Randy Steuart manages the Flexible Fixed Income Fund

- Leslie Wong Fellow, UBC's Portfolio Management Foundation
- 10 years' professional high yield experience (Ewing Morris, Norrep, Marret)

Investment Team

<u>Investment Partner</u>	<u>Background</u>	<u>Industry Experience</u>	<u>Investment Partner</u>	<u>Background</u>	<u>Industry Experience</u>
John Ewing	Burgundy	11 years	Alex Ryzhikov	Burgundy	8 years
Darcy Morris	Burgundy	11 years	Anthony Hammill	Broadview, AIC	19 years
Lee Matheson	Broadview, AIC	15 years	Randy Steuart	Norrep, Marret	12 years

Advisory Board

Martin Connell, O.C.	Former CEO & Chair of Conwest Energy, Co-Founder of Ace Bakery	Rosamond Ivey	Head of JRS Investments	Harry Rosen, O.C.	Founder of Harry Rosen, Inc.
Ira Gluskin	Founder of Gluskin Sheff	John MacIntyre	Founder & Principal of Birch Hill Private Equity	Bill Stedman	Former CEO of Pembina Pipeline, former CEO of ENTx Capital
Linda Haynes, O.C.	Co-Founder of Ace Bakery	David Peterson, O.ONT.	Chair of Cassels Brock, former Premier of Ontario	David Wilson	Former Vice-Chairman of Scotiabank, former Head of Ontario Securities Commission

What Makes Us Different?

Where do we play? How do we win?

Investment Grade

- × High interest rate risk
- × Commoditized product

Leveraged Investment Grade

- × High leverage
- × Medium credit risk
- × Crowded strategy

Ewing Morris Flexible Fixed Income Fund

- ✓ Low leverage
- ✓ Lower interest rate risk
- ✓ Credit risk hedging
- ✓ Scarce skill set

How Have We Done?

We have delivered returns superior to high yield bonds with less volatility than the investment grade bond market.

Annualized Return Since Inception		Volatility	
EM Flexible Fixed Income Fund	9.5%	EM Flexible Fixed Income Fund	2.3%
Canadian Investment Grade	2.3%	Canadian Investment Grade	3.1%
U.S. High Yield	8.7%	U.S. High Yield	3.6%

Returns as of September 30, 2018; Drawdown and Volatility based on monthly return set
Inception date for the Flexible Fixed Income Fund LP was February 1, 2016; Total Return of iShares U.S. High Yield Bond (CAD-hedged) ETF (XHY); Total Return of iShares Canadian Corporate Bond ETF (XCB)

Superior Stability & Downside Protection

Volatility		Max Drawdown	
High Yield	3.6%	High Yield	2.5%
Investment Grade	3.1%	Investment Grade	2.4%
EM Flexible Fixed Income Fund	2.3%	EM Flexible Fixed Income Fund	0.3%

Returns as of September 30, 2018; Drawdown and Volatility based on monthly return set
Inception date for the Flexible Fixed Income Fund LP was February 1, 2016; Total Return of iShares U.S. High Yield Bond (CAD-hedged) ETF (XHY); Total Return of iShares Canadian Corporate Bond ETF (XCB)

How Did We Do It?

Opportunities are mismatches between actual and perceived risks

Opportunity



We have clear advantages in finding opportunities

Our Advantages

Perspective

- ▶ **Credit Makers:** Imperial Metals | Murray Edwards
- ▶ **Structural Value:** Manitowoc Secured Notes
- ▶ **Debt versus Equity:** Precision Drilling

Our Advantages

Structure

- ▶ **Size:** Nimble, \$91mm fund
- ▶ **Hybrid Team:** Integrated, team-based research approach
- ▶ **Flexibility:** Unconstrained investment strategy

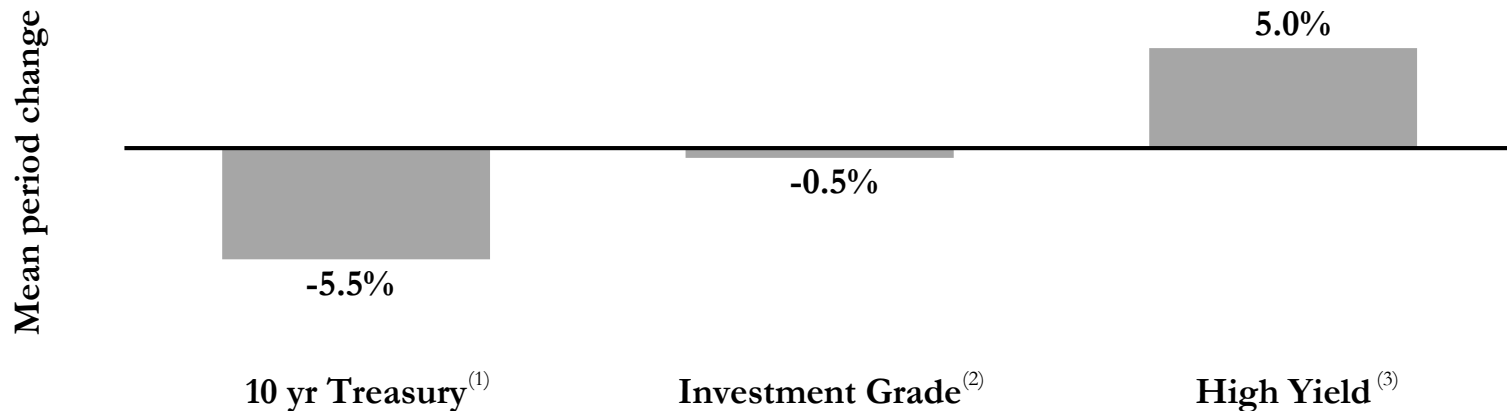
Why Now?

- ▶ Good entry point – portfolio currently yields 6.4%
- ▶ High yield works when interest rates rise
- ▶ Fund has outperformed in turbulent markets

What Actually Happens When Interest Rates Rise?

High yield bonds have lower sensitivity to rising interest rates

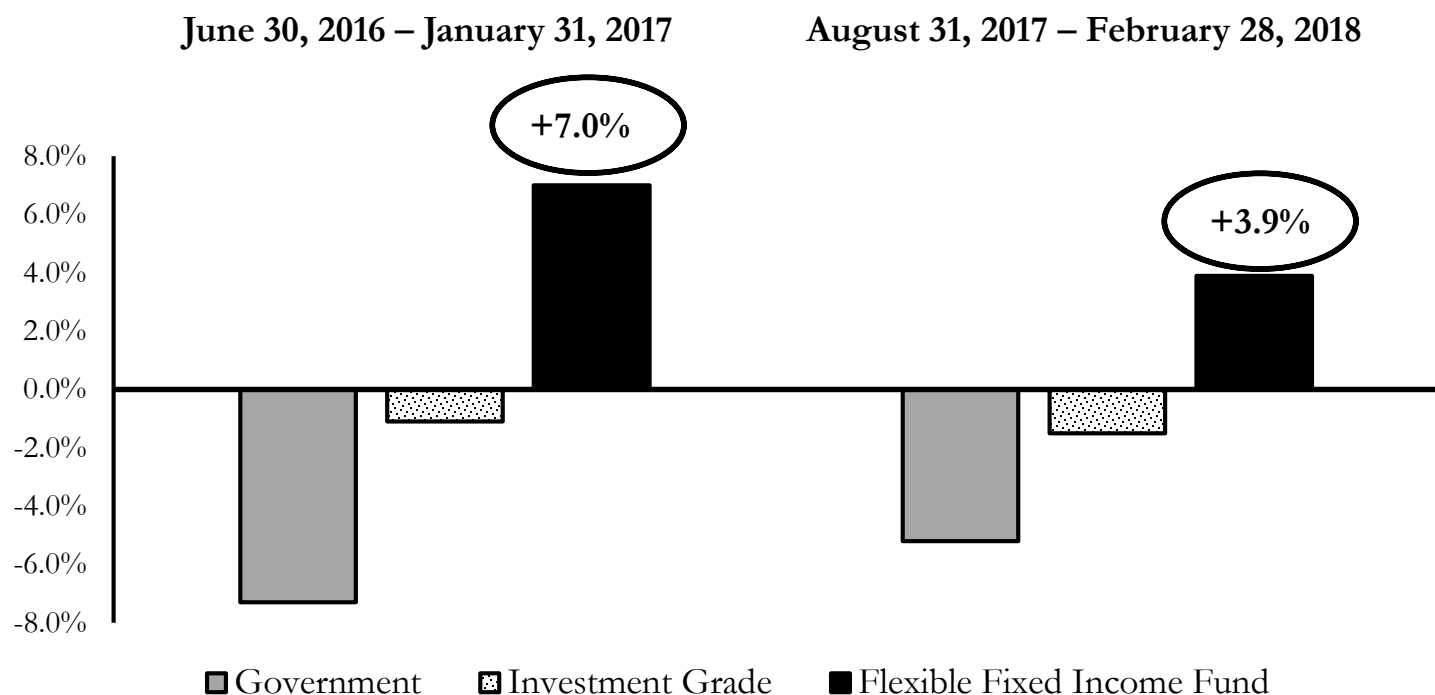
Mean bond performance during 14 periods of rate increases: 1998-2014



Sources: TIAA-CREF Asset Management; "The Enduring Case for High Yield Bonds", May 2015.

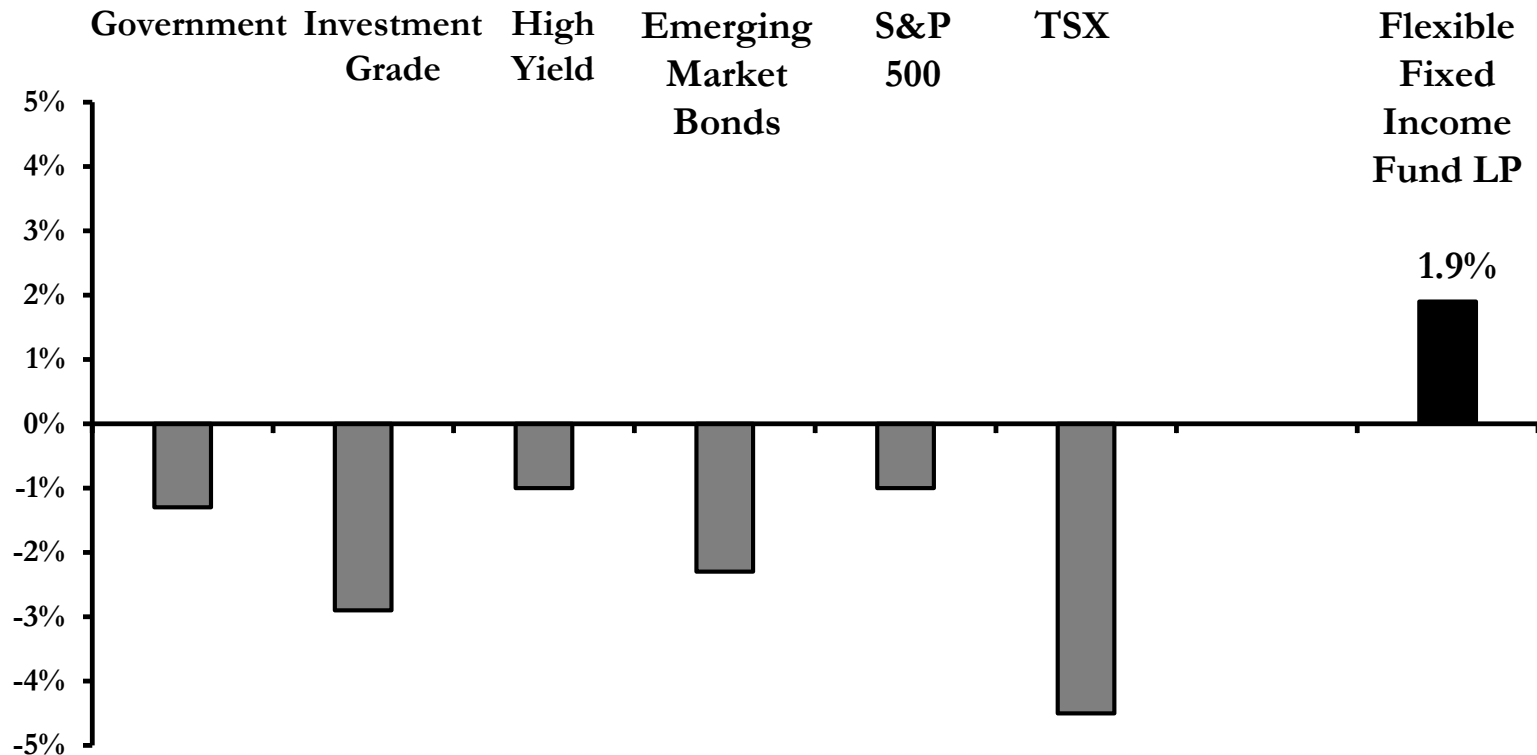
(1) BofA Merrill Lynch 10-year US Treasury Index; (2) BofA Merrill Lynch US Corporate Index; (3) BofA Merrill Lynch US Cash Pay High Yield Index.

Protection in Turbulent Markets: Rising Rates



⁽¹⁾ Government: 10-year U.S. Treasury Bond; Investment Grade: LQD, FFI: Ewing Morris Flexible Fixed Income Fund

Protection in Turbulent Markets: Q1 2018



Source: Bloomberg (April 2018)

BAML US Government and Agency Index; LQD, XHY, EMB, S&P 500 Total Return Index, S&P/TSX Total Return Index

Summary of Key Terms

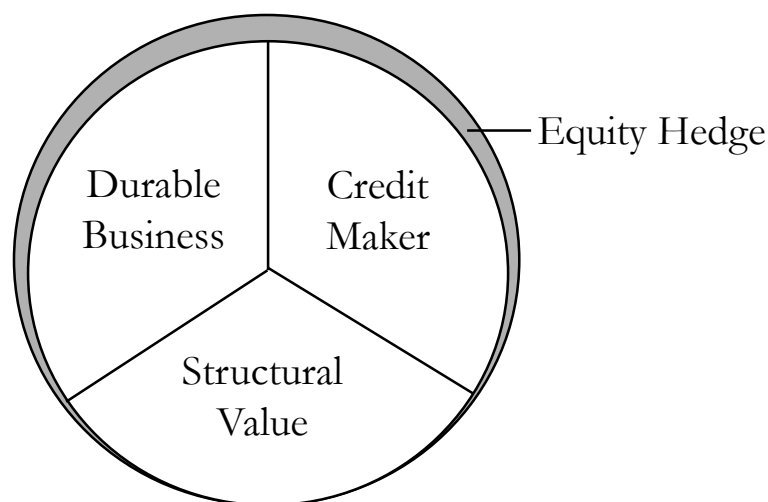
Alignment of interests	Substantially all of the PM's liquid investable assets are invested in the Fund
Fees	Class P: 0.75% management fee + 20% profit allocation <u>after</u> 5% preferred return Class T: 1.50% management fee
Perpetual High Water Mark	If an investor suffers a loss, performance fee does not start accruing until after the previous losses have been recouped
Lockup provision	None
Liquidity	Monthly; 45 day notice Within 1 year - 4% early redemption fee <u>payable to LP</u>
Reporting	Monthly investment statements and pricing Quarterly commentary Annual Limited Partners Meeting
Custodian/Prime Broker	TD Securities
Fund Administrator	SS&C Commonwealth Fund Services

Appendix

Investment “Playbook”

Similar to our equity strategy, we like to describe our fixed income investment strategy using the analogy of a sport’s playbook. A team with only one play can often be stopped but a championship team will have practiced multiple plays to ensure success regardless of game conditions and the opposition’s tactics.

Our Playbook involves four defensive plays:



Credit Maker Case Study

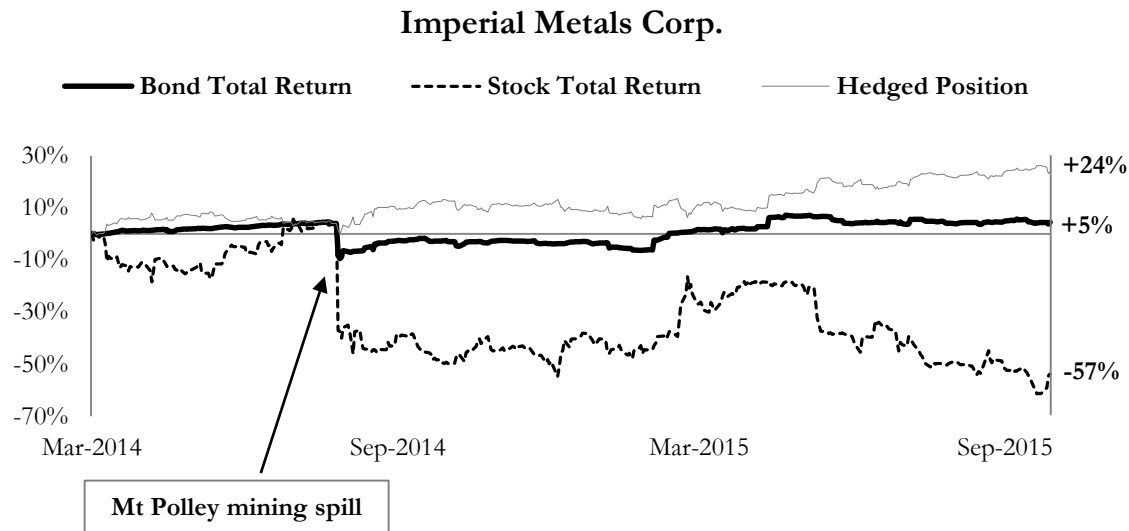
Imperial Metals

- ▶ Credit Makers act as off-balance sheet assets for creditors
- ▶ Analysis of personal incentives provides robust perspective on credit quality
- ▶ As 37% owner of Imperial and Chairman of Canadian Natural Resources, Murray had significant incentive and acted to assure the financial safety of Imperial, following its mining spill

Source: Bloomberg

Credit Maker Case Study

Imperial Metals



- ▶ Mine spill required capital to remediate and stabilize the company
- ▶ Murray Edwards provided immediate and significant capital support, supporting the bonds at the expense of the equity

Source: Bloomberg

Structural Value Case Study

Manitowoc Inc.

- ▶ Business: manufacturer of cranes
- ▶ Issued secured notes amidst depressed earnings in rough credit market
- ▶ Excellent contract strength
- ▶ Current investment opportunity – forthcoming refinancing event

Source: Bloomberg

Structural Value Case Study

Manitowoc Inc.

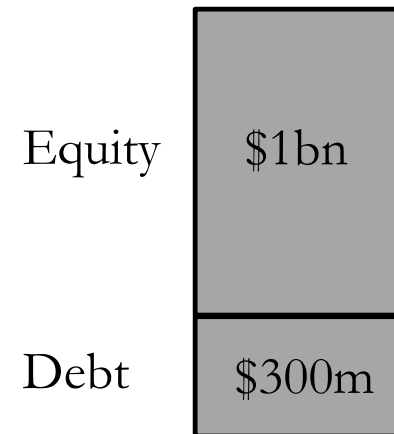
When Issued

Yield: 12.75%
Cash Flow: \$50m

Today

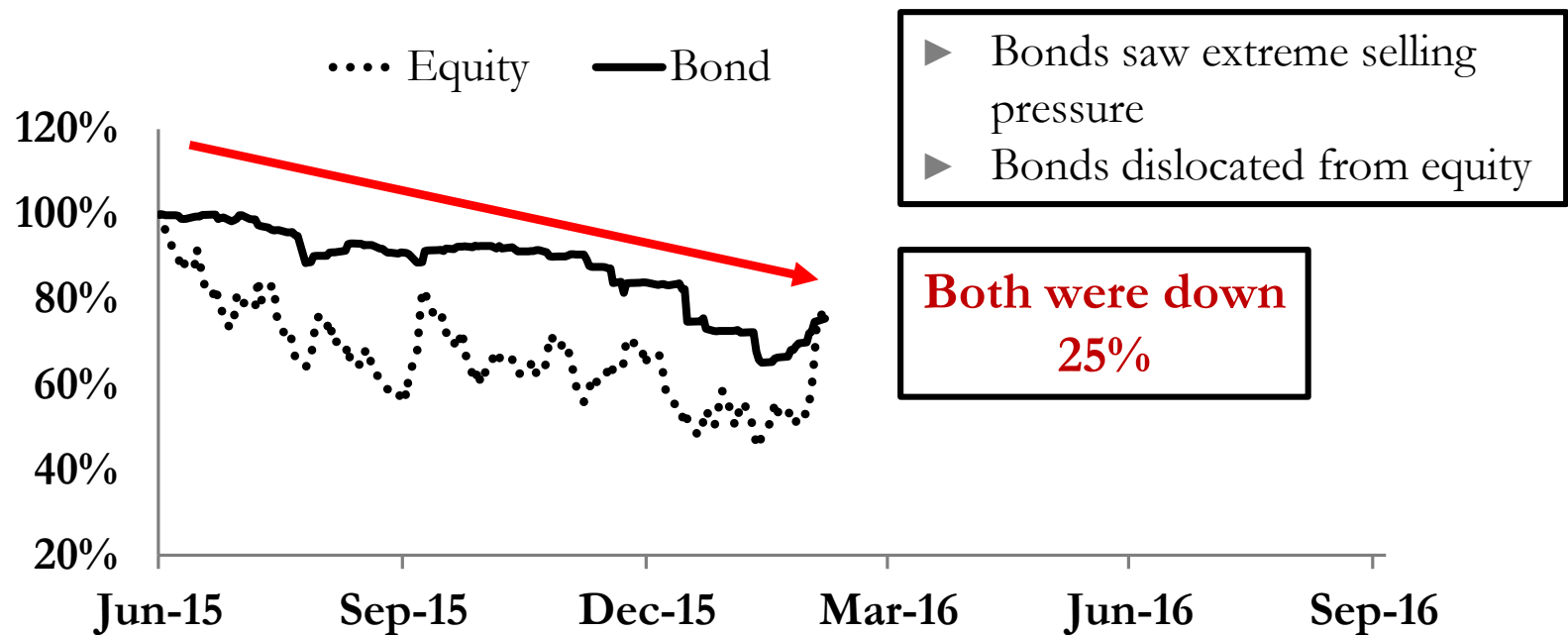
Yield: 5%
Cash Flow: \$100m

- ▶ 12.75% interest rate will be refinanced lower
- ▶ First redemption date: February 2019
- ▶ Attractive all-weather investment



Debt versus Equity Case Study

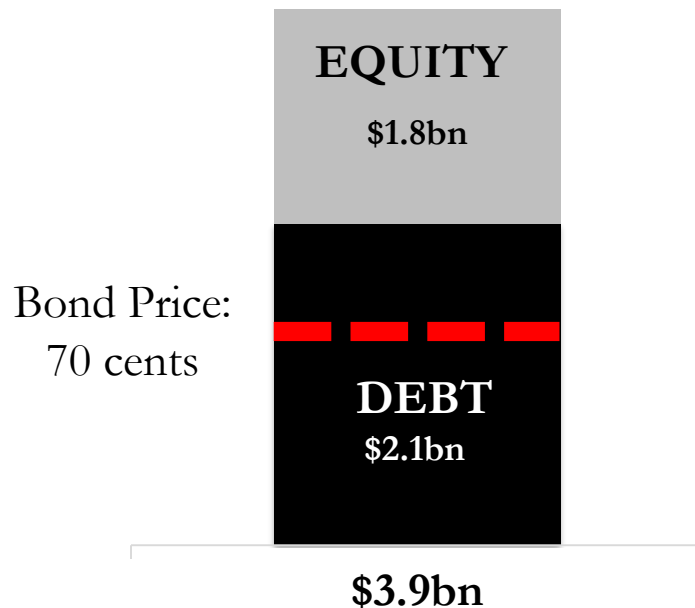
Precision Drilling



Debt versus Equity Case Study

Precision Drilling

PRECISION DRILLING



Equity investors were comfortable (\$1.8B market cap) but bonds at 70 cents perceived bankruptcy risk

Debt versus Equity Case Study

Precision Drilling

But actual risk was far lower than perceived

- ✓ High Asset Coverage
- ✓ Manageable Obligations
- ✓ Strong Liquidity

~2x

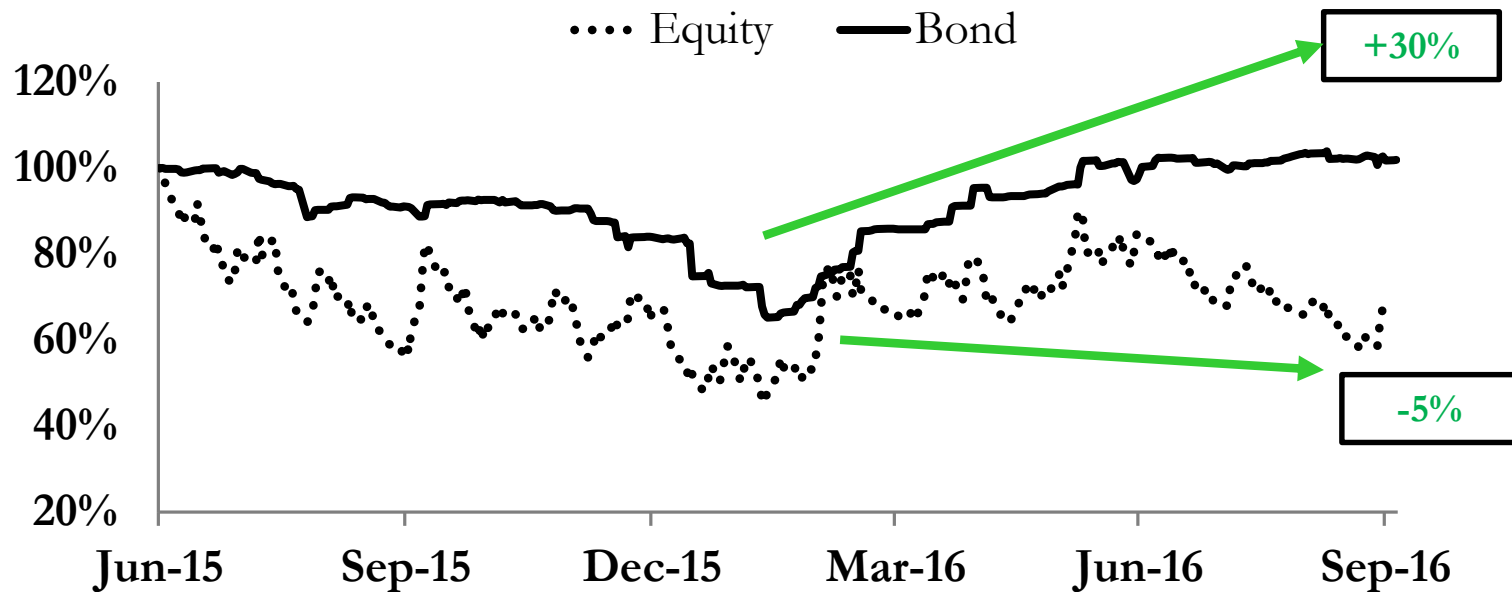
2019

\$1.2bn

Debt versus Equity Case Study

Precision Drilling

What Happened?



Equity Hedging

- ▶ We hedge select high yield bond investments with stock
 - ▶ We hedge when stocks overlook credit & business risk
 - ▶ Substantially reduces position and portfolio risk & volatility
-

Equity Hedging

- ▶ We consider select equity hedging as ‘insurance’ for our bond investments
- ▶ We underwrite these hedges with an expectation of earning modest returns over the long-run
- ▶ Recent Experience: Q1 2018 average exposure = 4.3%
 → Added 1.1% to Fund Returns

Realized Hedged Investments

Capital structure arbitrage strategy can reduce risk and enhance return

Investment Example	Bond Return ⁽¹⁾	Equity Return ⁽¹⁾	Enhancement / Drag From Equity Hedge	Total Return
Cenovus Energy	39%	21%	-5%	34%
Precision Drilling	32%	-4%	+1%	33%
Hecla Mining	64%	92%	-23%	41%
Seagate Technology	36%	-7%	+2%	34%
Rona ⁽²⁾	3%	2%	-0.5%	2.5%

Examples are not representative of entire portfolio. Past returns are not indicative of future performance.

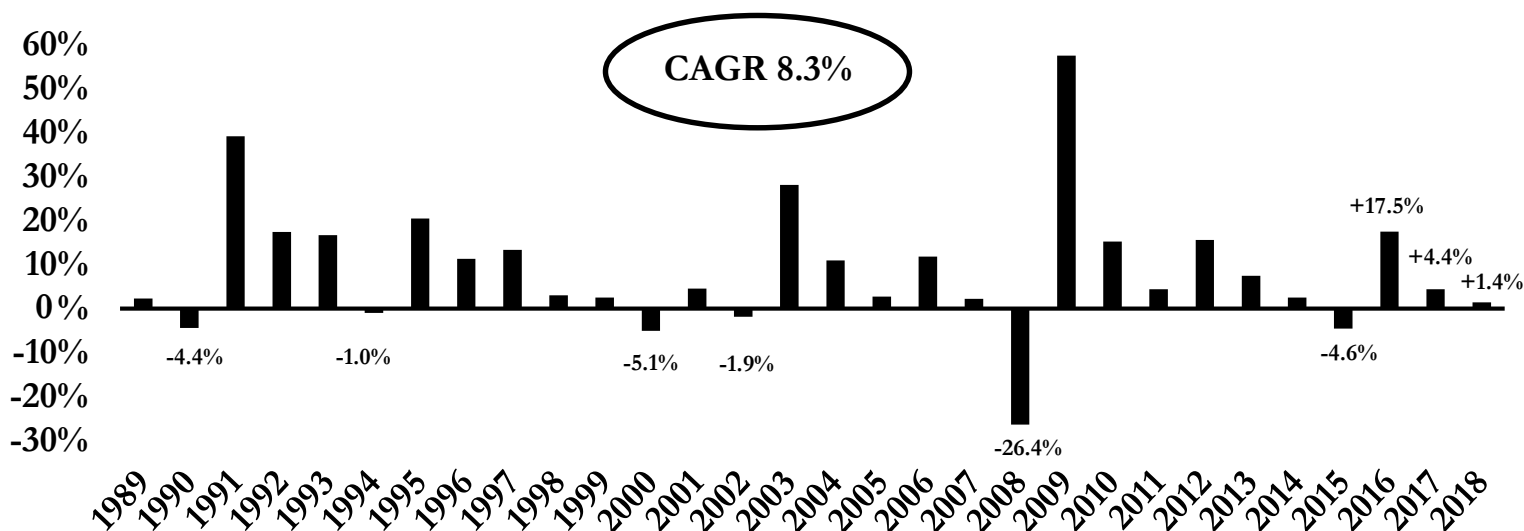
(1) Returns are as of date that hedge or entire position was exited.

(2) Preferred shares.

Attractive Long Term Asset Class

High Yield Index 30 Year Return History⁽¹⁾

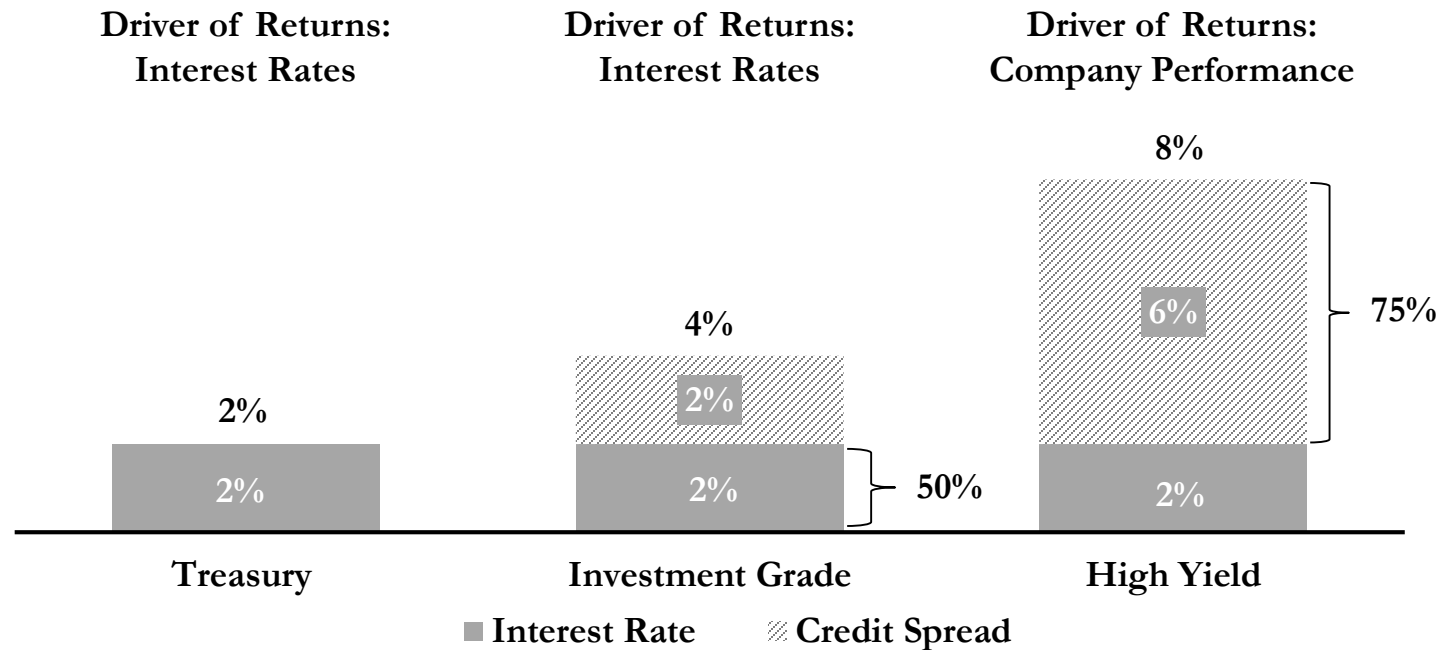
Bank of America Merrill Lynch U.S. HY Index



(1) Bank of America Merrill Lynch U.S. HY Index, FRED, September 30, 2018.
Year-to-date 2018.

What Drives Fixed Income Returns?

High yield bond prices are typically dominated by company performance



Interest rates and credit spreads indicative estimates, for illustrative purposes.

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Disclaimer

This document does not constitute an offer to sell units of the Ewing Morris Flexible Fixed Income Fund LP. Units of the Ewing Morris Flexible Fixed Income Fund LP are only available to investors who meet investor suitability and sophistication requirements. The Fund has a flexible investment mandate. Therefore the Fund's composition is materially different than major indices.