EWING
MORRIS
INVESTMENT PARTNERS LTD.

1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

telephone. 416 640.2791
www.ewingmorris.com

January 4, 2016

"The only sustainable competitive advantage we have as a company is the people we attract. Everything else can be copied". – Carlos Brito, CEO of AB InBev NV

Dear Friends and Partners,

Investment Update

We have now completed our fourth full year of investment operations. Since launching in September 2011, the Partnership has returned approximately 46%, net of all fees and expenses, or compounded at a rate of 9% as of December 31, 2015. For the calendar year 2015, the Partnership returned 8%, net of fees and expenses. This compares favorably to the returns of -8.3% for the TSX Composite Index and 1.4% for the S&P 500 Index, including dividends.

For the first time since we began operations, we find ourselves with more investment ideas than capital. This may sound strange given the S&P 500 is near an all-time high and the Canadian economy appears to be struggling. However, the opportunity we see today is in the Cheap Asset category of our playbook. This is the category where our financial returns depend more on corporate actions than on the direction of the general market. These are small, idiosyncratic companies that are substantially underpriced relative to their private market value. Today, these investments represent 53% of the portfolio and have a median market cap of $160 million.

When we invest in Cheap Asset plays, we take into account that sometimes the investment will work out quickly while, at other times, it may take several years to realize our return. Occasionally, we will be proactive in suggesting corporate actions to management that might help unlock underlying asset value within a shorter timetable. Today, we see certain catalysts in place among a number of our Cheap Assets that should help to unlock underlying asset value within the next 6-18 months. Catalysts include stock buybacks, balance sheet restructurings, mergers and acquisitions, strategic board nominations, or private equity buyouts.

We have reallocated capital towards our highest conviction ideas and plan to invest additional capital personally into the Partnership in the first quarter of the year. We believe this to be an opportunistic time for our partners to consider investing additional capital as well.

A Step into Fixed Income Investing

We are very pleased to announce that Randy Steuart has recently joined Ewing Morris & Co. to launch our new Flexible Fixed Income Fund LP. Over the past few years, some of you have expressed interest in a solution for your fixed income investment needs. Like us, many are unconvinced that a traditional bond portfolio or balanced fund will protect your capital throughout a variety of market conditions, including rising interest rates. Others have expressed concern with the increased risks from the high leverage used in most alternative fixed income funds.

EWING MORRIS
INVESTMENT PARTNERS LTD.

1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

telephone. 416 640.2791
www.ewingmorris.com

The Flexible Fixed Income Fund LP has a defensive investment mandate and the main objective is the preservation of capital and downside protection through varying market conditions. We will target net returns of 5-7% with substantially less price volatility compared to equity markets. The flexibility of the fixed income fund refers to our ability to invest across the spectrum of the bond market from treasury bills to high yield bonds. The attributes of the Fund that will contribute to its uniqueness are:

- **The Fund will focus on the high yield bond market.** Unlike the average low-yielding bond portfolio where interest rate risk is high, the Fund will focus on high yield bonds using fundamental and security analysis.

- **The Fund will utilize low levels of leverage.** Unlike a typical credit hedge fund, which uses aggressive levels of leverage applied to investment grade bonds to earn a reasonable return, the Fund will have zero, or substantially less, leverage.

- **The Fund will manage risk through equity hedging.** The Fund will look across capital structures and hedge our bond holdings by shorting the equity of the same company. This allows us to earn the high income of the bond while maintaining insurance against unexpected deterioration of the business.

This is "*the fixed income fund that we would want to invest in*" and it is designed to protect investors better than a traditional fixed income fund. We asked Randy to share some of his thoughts on investing which can be found here.

Investment Commentary

As we enter 2016, we remain committed to our investment discipline of investing in a handful of carefully-selected businesses that we understand, are run by able management teams we know and trust, and have been purchased at attractive prices (usually with the intent to hold for several years).

The launch of our new Flexible Fixed Income Fund is also looking well timed. With the US stock market near all-time highs and traditional income-oriented products still providing paltry yields, the high yield bond market stands out as an attractive and cheap alternative in light of its recent sell-off and low expectations.

While no one can predict future market outcomes we are confident that over time our style of investing will yield returns that will meet the investment objectives of you, our partners.

For your interest, we are re-publishing a presentation delivered at our 2015 Investor Day by our colleague and partner, Alex Ryzhikov. Some of you attended and others may have already seen the transcript but we think the message is important towards understanding our investment approach. *The presentation begins on page 4.*

EWING MORRIS
INVESTMENT PARTNERS LTD.

1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

telephone. 416 640.2791
www.ewingmorris.com

Miscellaneous

As a quick reminder, 2015 RRSP contributions are due by the end of February 2016. The Federal Government is set to reduce the annual TFSA contribution limit from $10,000 to $5,500 in 2016 and all future increases in TFSA limits will be tied to inflation. Total TFSA contribution room, since the program was launched in 2009, will be at $46,500 in 2016. Please let us know if we can facilitate your 2015 RRSP or TFSA investment.

Investors will receive their year-end investment statements within the first two weeks of January. PwC has begun their audit and we will deliver our comprehensive Annual Report to Limited Partners and final tax information by the end of March.

We began hosting a casual speaker series at our office on the first Thursday of every month this past year. We've named them "Scotch Socials" in honor of the stockpiled scotch bottles we had collected as gifts over the years. Throughout 2015 we were fortunate to have political columnist Andrew Coyne provide a preview into the Federal election, the Hon. David Peterson fill us in on the Pan Am Games, Paul Beeston share his experiences with the Blue Jays, Harry Rosen explain the inner workings of the retail world and Tim Leiweke speak about the state of professional sports in Toronto. The tone of the evenings has been candid, off-the-record conversations with lots of Q&A and we would like to thank everyone that participated in 2015. We are looking forward to welcoming Soulpepper Theater's Albert Schultz to kick-off 2016 on January 7th.

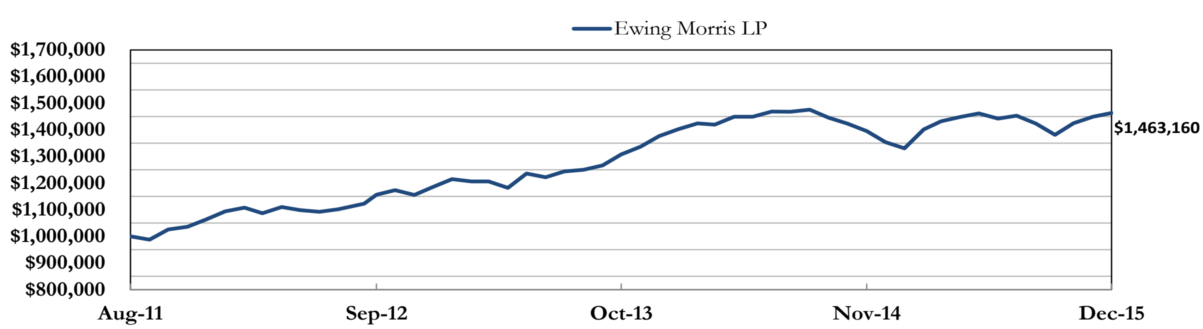
As always, please let us hear from you if you have any questions.

Cordially,

John Ewing
Co-Founder

Darcy Morris
Co-Founder

Growth of $1 million invested since inception* as of December 31, 2015



*September 11, 2011

EWING
MORRIS
INVESTMENT PARTNERS LTD.

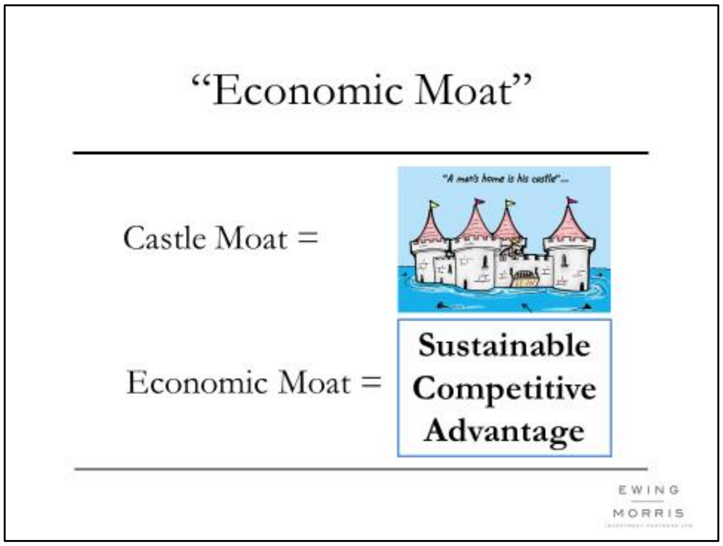
1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

telephone. 416 640.2791
www.ewingmorris.com

THE IMPORTANCE OF PEOPLE IN INVESTING

Alex Ryzhikov, CFA – Partner, Investments, delivered the following presentation at the Ewing Morris Annual Limited Partners Meeting on October 14, 2015.

One of the questions we are asked quite often is how do we approach selecting Great Capital Allocators. I think the approach we use is one that would have been very similar if we were in your shoes looking for a great asset manager. Specifically, we believe it is more important to understand the investment process employed by the manager as opposed to what current holdings the manger has in his or her portfolio. So with that in mind, I am hoping that my presentation will provide you with some additional insight into how we invest at Ewing Morris.

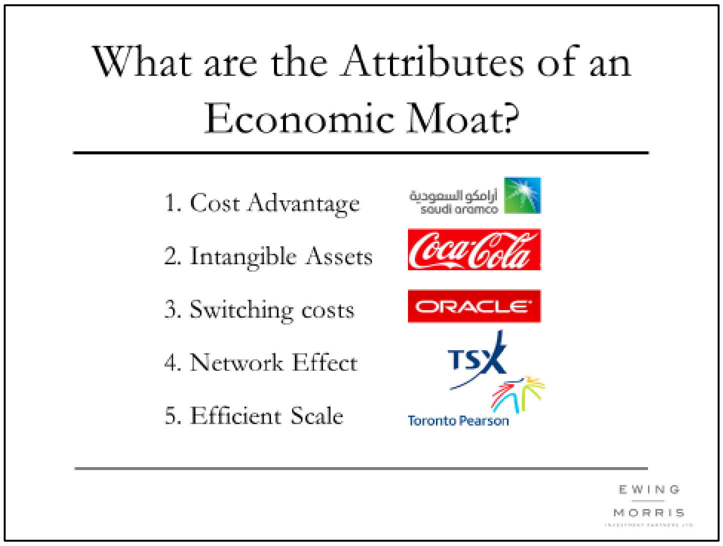


I would like to start with a quote: "Buy a business that an idiot can run, because sooner or later, one will." This is a famous Peter Lynch quote that, for some, has come to mean: "focus on the business and forget the management". Today, I want to examine this approach. First of all, what does it mean to focus on the business? Usually it means determining if the business has an economic moat.

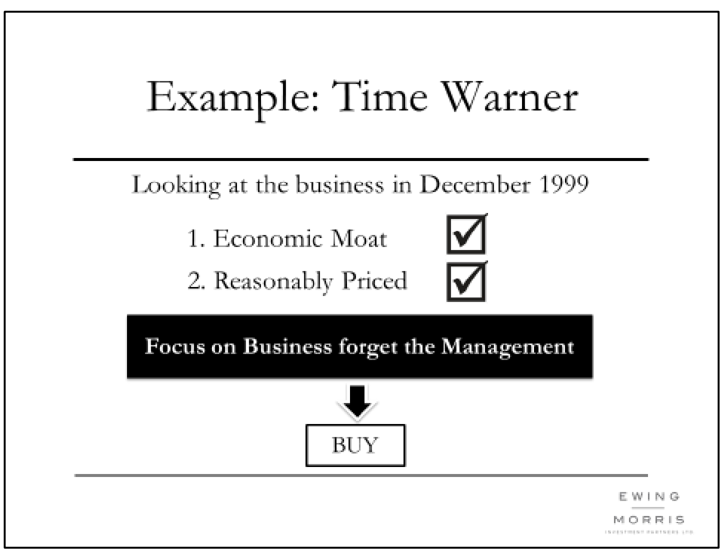
EWING MORRIS
INVESTMENT PARTNERS LTD.

1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

telephone. 416 640.2791
www.ewingmorris.com



An economic moat is simply another word for a sustainable competitive advantage and, although there is no right definition to what constitutes an economic moat, the following five business attributes have often been associated with an existence of an economic moat: Cost advantage like Saudi Aramco; intangible assets such as patents and brands, with Coca-Cola being a good example; switching costs, Oracle ERP software comes to mind here; network effect, people often use exchanges like the TSX, and efficient scale, in this case, Pearson Airport would be a good example.

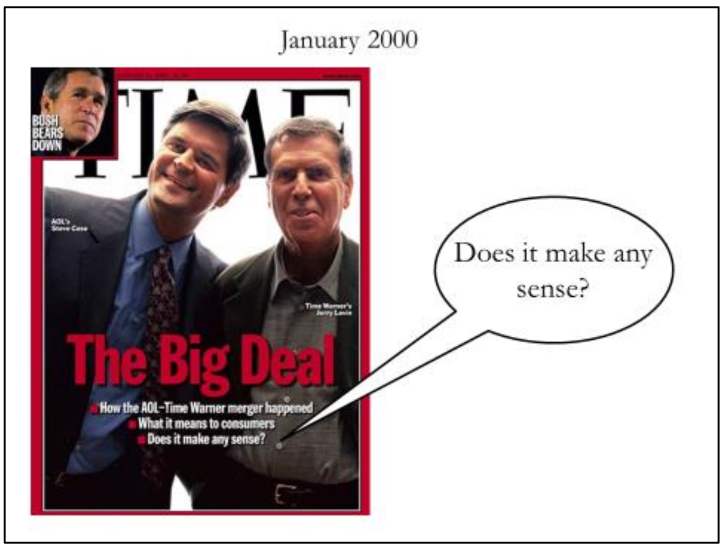


EWING MORRIS
INVESTMENT PARTNERS LTD.

1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

telephone. 416 640.2791
www.ewingmorris.com

Imagine you are an analyst looking at Time Warner in December of 1999; you would have been justified in concluding that the business appeared to have an economic moat. The cable operations benefited from minimum efficient scale that limited the number of potential competitors in a given geographic market, giving it some measure of pricing power, while the company's media assets such as HBO, CNN, Sports Illustrated had strong brands that people were willing to pay a premium for. If you thought that the business is reasonably priced, you had to conclude that Time Warner's common stock represented an attractive investment opportunity. However, only two months later, Time Warner's management announced their intention to merge with AOL, a transaction that, in essence, gave away a 55% ownership stake in Time Warner's assets in exchange for a 45% stake in a business with substantially lower earnings power and, at the very least, a questionable moat. For those who cannot clearly see the last question on this Time cover it asks: "Does it make any sense?"

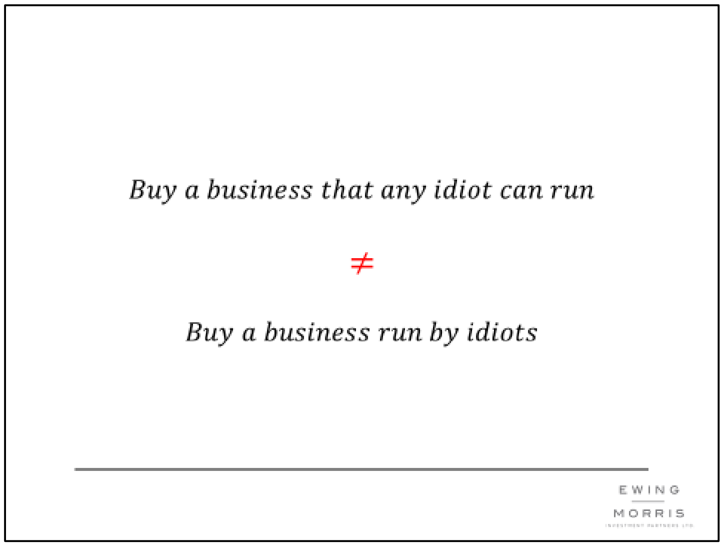


And the short answer to that question is: No! Only two years later, the company reported a $100 billion loss, including a $45.5 billion goodwill write-down. Today, you can imagine a management team arguing that the goodwill write-down is a non-cash item and should be excluded from the evaluation of management's performance. The following quote from Ted Turner, the company's Vice-Chairman and largest shareholder at the time, highlights the fact that goodwill write-downs all too often represent a true economic loss: "The Time Warner-AOL merger should pass into history like the Vietnam War and the Iraq and Afghanistan wars. It is one of the biggest disasters that has occurred to our country. I lost 80 percent of my worth and subsequently lost my job. We looked it up to see if I was the biggest loser of all time because I lost about $8 billion." Now, I think Mr. Turner is exaggerating the impact that this transaction had on the United States, but then again, I have never lost $8 billion. That is not to say that every great business also needs to have a great capital allocator at the helm for it to be a successful investment.

EWING MORRIS
INVESTMENT PARTNERS LTD.

1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

telephone. 416 640.2791
www.ewingmorris.com



But we do believe that, almost irrespective of what competitive advantages or the economic moat that the operating business has, investors in public companies should pay close attention to the management team at the helm of the business to reduce the probability that their actions will lead to a permanent loss of investors' capital. If you ignore management, all too often you will end-up owning companies run by idiots and that is not the advice that Peter Lynch was giving.

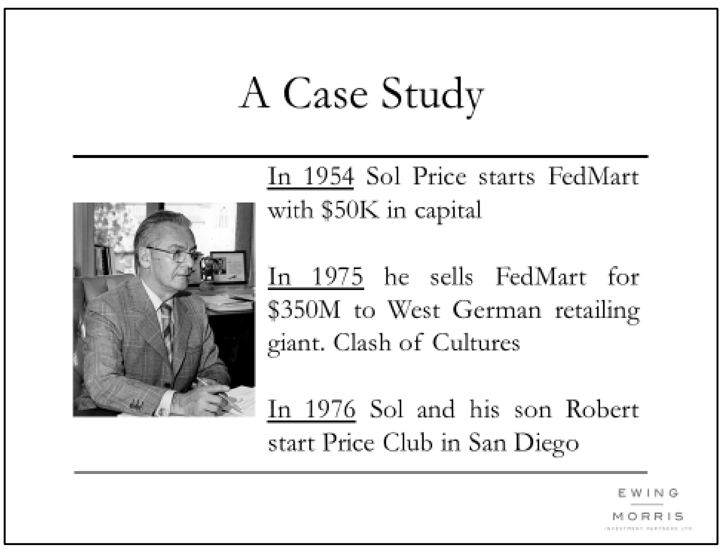
EWING MORRIS
INVESTMENT PARTNERS LTD.

1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

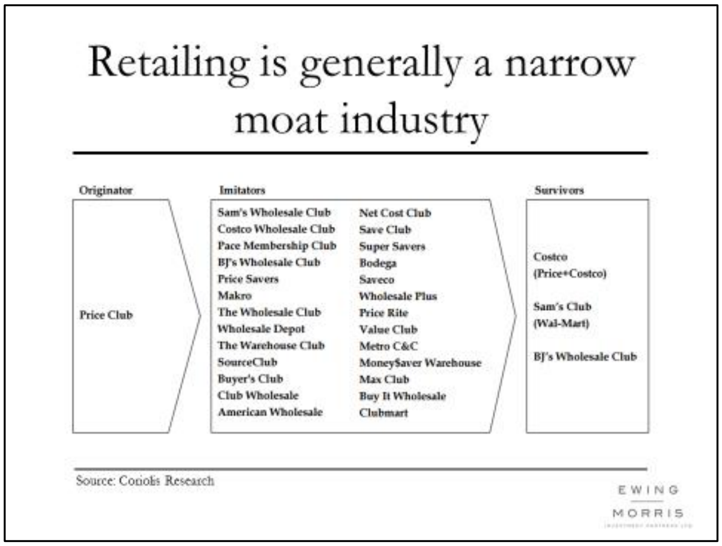
telephone. 416 640.2791
www.ewingmorris.com

So far, we have seen how management can destroy what otherwise looks like a wide moat, but there is another important reason why focusing on management can be very lucrative. You are all probably familiar with ABInBev, the world's largest brewer that owns some of the most recognizable brands. It is not hard to argue that this business has many attributes of a wide economic moat: well-known brands that people are willing to pay a premium for, economies of scale, an elaborate distribution network that would be difficult to replicate and so on. So, if management wanted to widen its moat, certainly these elements are all that the senior management should talk about?

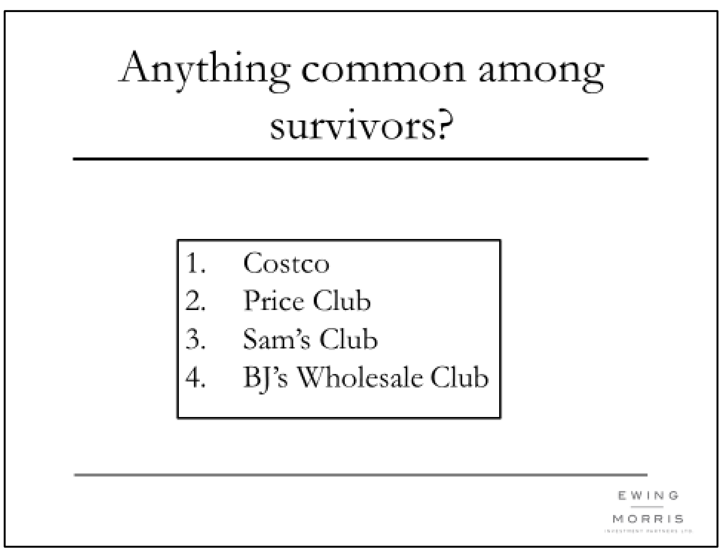
Well, not quite. If you have ever heard the company's CEO, Carlos Brito, present, you know that all he talks about is "Dream, People and Culture". And this is a quote from him on the nature of ABInBev's economic moat: "The only sustainable competitive advantage we have as a company is the people we attract. Everything else can be copied". So what Carlos Brito appears to be saying is that People and Culture can in themselves be a source of an economic moat. We should remember that economic moats, just like castle moats, are built and maintained by people and, if you find exceptional engineers and builders, wide moats often follow.



Let us look at a case study. In 1954, a 37-year-old San Diego lawyer started a membership discount chain called FedMart with a $50 thousand investment. Over the ensuing 21 years, he grew the company to 40 stores and sold it for $350M to a West German retailing giant. Unfortunately, after the sale, Sol had a fallout with the new owners and was fired at the second board meeting. A year after departing FedMart, Sol with his son opened a new wholesale store called Price Club that became quite successful over the ensuing four years.



As you probably know, retailing is a very competitive or, in other words, a narrow moat industry and it is not surprising that, after Price Club went public in 1980, it attracted a lot of competitors looking to replicate its success as illustrated by the accompanying table. Now, you might be asking yourself what happened to FedMart? Well, after Sol departed FedMart, it almost immediately started to lose money and closed its doors in 1982.

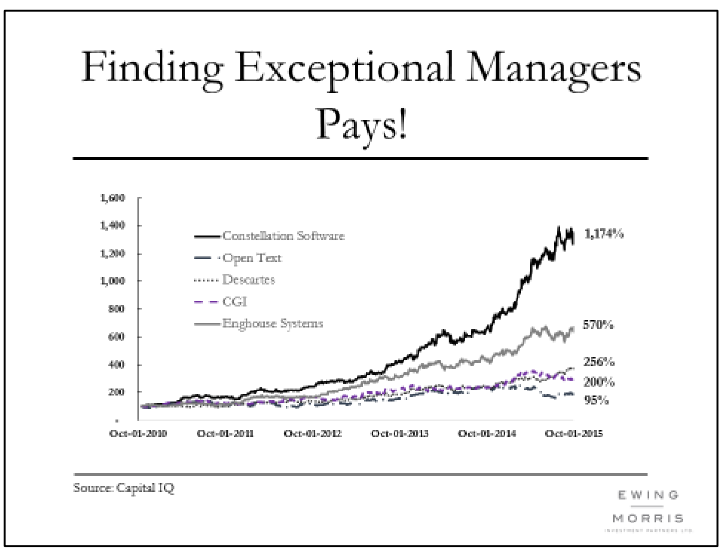


1407 Yonge Street
Suite 500 Toronto, ON
Canada M4T 1Y7

telephone. 416 640.2791
www.ewingmorris.com

But, let us go back to the previous slide. I think there is something remarkable about the list of winners. Costco, was started by Jim Sinegal and Jeffrey Brotman in 1983. Prior to starting Costco, Jim Sinegal worked under Sol Price for 24 years and was able to lure a lot of Price Club employees to Costco. So Costco and Price Club were basically built by the same people. I believe everyone is familiar with Sam Walton and his track record as a retailing executive. Three out of four winners appear to have managers with strong track records of success. Imagine you were looking at this list of imitators in the mid-1980s. You knew that if you could pick the eventual winners, you stood to make a lot of money. But how do you go about selecting the winners? You could have looked for evidence of an economic moat and likely concluded that none existed and therefore abandoned the idea. Or, alternatively, you could have bet on the track record of people involved and it looks like this second approach would have made you very wealthy.

Today, Costco is an extremely successful enterprise with a market capitalization of $63 billion. Most people would argue it has a very wide economic moat, but I think this next quote from the company's co-founder, Jeffrey Brotman, is quite telling to what he believes Costco owes its success. "We're identical to the Price Club primarily because so many of our management personnel come from that operation. Everyone has gone to San Diego and copied the Price Club. <u>But it is one thing to copy it physically and another to copy it mentally.</u>" This is only a portion of the quote as he goes on to explain what he means, but in essence it looks to me like at least he believes that Costco owes much of its success to the right People and the right Culture.



An example in our portfolio is Constellation Software, where Constellation and its peers have taken similar approaches to value creation, but where different people have produced markedly different results for investors.

Now, when it comes to Great Businesses and Cheap Assets, management teams do not form the core of our investment thesis. Having said that, we think that the CEOs listed here will not only preserve our capital, but in themselves represent a very valuable option that could translate into better than expected returns from these investments.

In conclusion, today I wanted to share with you our belief that, when it comes to public companies, management analysis should be closely tied into business analysis and separately, when looking for wide moats, it often pays to find exceptional engineers.

About the Ewing Morris Opportunities Fund LP:

The Ewing Morris Opportunities Fund LP was established by John Ewing and Darcy Morris in September 2011 to achieve preservation and growth of capital through superior securities selection. The Partnership invests in securities that are inefficiently priced based on a number of factors. The Partnership is focused on North American-based small-capitalization companies.

CONTACT INFORMATION:
Ewing Morris & Co. Investment Partners Ltd.
1407 Yonge St., Suite 500
Toronto, ON M4T 1Y7
Canada
info@ewingmorris.com
416.640.2791