EWING MORRIS
INVESTMENT PARTNERS LTD.

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January 4, 2018

Dear Friends and Partners,

Investment Update

We have now completed our sixth full-year of investment operations. The following table summarizes our investment performance, net of all fees and expenses, as well as the performance of well-known and widely-followed investment alternatives for our limited partners.

Year	**Ewing Morris Opportunities LP Class A**[1]	S&P/TSX Index with Dividends Included	S&P 500 Index with Dividends Included
2017 (YTD)	**9.2%**	9.1%	21.8%
Since Inception (Annualized)	**10.7%**	7.5%	16.6%
	Ewing Morris Flexible Fixed Income LP Class P[2]	iShares U.S. High Yield Bond Index ETF (CAD-Hedged)[3]	iShares Canadian Corporate Bond Index ETF[3]
2017 (YTD)	**7.2%**	5.5%	2.7%
Since Inception (Annualized)	**11.3%**	11.5%	3.3%

Opportunities Fund LP Commentary

It is understandable that many investors have reservations about current equity market valuations. We share these concerns. Fortunately, we do not own "the market". Our ten largest investments represent almost 80% of our capital. We think this focused group of companies is poised for strong results in 2018.

If market volatility should arise, which is entirely possible, we think the portfolio would fare much better than most other equity alternatives. Here is why:

1. *Material cash weight*. Today we have ~5% cash weight.
2. *Material short book*. We have ~20% of the portfolio short.
3. *Material fixed income securities*. We have ~15% of the portfolio in fixed income securities that offer solid returns at substantially less-than-equity market risk.

Flexible Fixed Income Fund LP Commentary

There are also concerns that bond markets are overpriced. Interest rates remain low relative to history and the premium investors receive in corporate bonds has narrowed to pre-crisis levels. One

[1] Results are estimates as of December 31, 2017 and are net of all fees and expenses. Fund inception was September 9th, 2011.
[2] Results are estimates as of December 31, 2017 and are net of all fees and expenses. Fund inception was February 1st, 2016.
[3] Note: Low-cost, index tracking funds; representative of an individual's opportunity cost in fixed income.

must look back to 2007 to find a more expensive investment grade bond market. This makes us quite cautious. Here is how we have positioned ourselves to control interest rate and credit risk in the portfolio:

1. *We've found safety in parts of the Canadian market.* 70% of the portfolio is invested in a collection of high yield bonds of Canadian issuers, a niche space in the fixed income market. These bonds are issued by companies with solid credit profiles. Further, most of these bonds are Canadian dollar denominated, which trade with substantially less volatility than what is seen in the US Dollar high yield market.
2. *We are avoiding bonds owned by US Exchange Traded Funds (ETFs).* We currently have only 4% common ownership with US High Yield ETFs. ETF-owned bonds tend to be the most popular and 'crowded' bonds in the market, causing them to be overvalued in the good times (i.e.: today) and volatile when markets turn.
3. *We are reducing credit risk through equity hedging.* We have found several companies in which credit investors are much more pessimistic than their equity counterparts and have 5% of the fund in equity hedges, which can prove to be potent sources of capital preservation in difficult market environments.

With credit markets as expensive as they are today, we have also taken great care to construct the portfolio in a way that it is not reliant on any meaningful leverage or exposure to the lower end of the credit spectrum (CCC-rated bonds) in order to produce results. In light of these risk-reducing measures, we are pleased that the portfolio continues to yield 6.5%. This puts the fund in a strong position to earn stable returns over time in our guided 5-7% range.

Investment Commentary

Randy Steuart joined the Ewing Morris team in late 2015 to launch the Flexible Fixed Income Fund. The Flexible Fixed Income Fund invests in debt, focuses on downside protection and is designed for investors who want to avoid the volatility traditionally associated with equity investing.

Most investment firms usually manage only bonds or stocks, not both. Even when both are offered, the responsible individuals are segregated into distinct teams, often on different floors or even buildings. In contrast, the investment team at Ewing Morris is tightly integrated; they sit together, without walls while John and Randy even share a recycling bin. Randy's influence has introduced a new short selling tactic to the firm that we would like to describe.

A commonly cited problem with shorting[4] is that profits are capped (since the stock price can only decline to zero) but losses are unlimited (since the stock price could theoretically rise to infinity). For example, approximately 20% of Tesla's shares are currently shorted by the market (none have been shorted by Ewing Morris). The argument for short selling Tesla is that the company has a lot of debt, is currently losing money with subsidies that could disappear and is reliant on access to new money that could be withdrawn. That view may prove true, but Tesla's stock price rose 45% in 2017. Short selling Tesla has been a painful experience.

[4] As a reminder, short selling or "shorting" involves borrowing a security (stock or bond) and selling it today with the expectation that the price will fall in which case the short seller can purchase the security at a lower price and return it to the lender. The short seller is still practicing "buy low, sell high" except in the opposite order "sell high [today], buy low [tomorrow]".

However, shorting bonds is a little bit different. A bond is an obligation to repay a loan at maturity. While stock prices are theoretically unlimited (since the value of the business can keep growing and growing), there is a limit to how much someone will pay today to receive $100 in the future. Unlike with stocks, the downside to shorting bonds is capped. Said another way, the "Tesla risk" cannot happen when you short a bond.

When shorting stocks, we normally target weak companies with deteriorating businesses. However, selecting bonds to short is a little bit different. Short sellers are responsible for making payments like dividends and interest, otherwise known as carrying costs. Weak companies rarely have enough excess cash to pay dividends so carrying costs are low to short the stock. In contrast, weak companies usually have to pay higher rates of interest so the carrying costs to short a weak company's debt are usually high. Counterintuitively, the ideal bond to short is actually one issued by a <u>good company</u> with <u>tail risk</u>.

"Good" companies are commonly referred to as investment grade (as opposed to high yield). Investment grade debt is attractive because carrying costs are low (interest rates on investment grade bonds today are about 3.25%) and duration is high. "Tail risk" refers to unlikely events that, if they occurred, would have severe negative consequences for the company.

For example, Aimia, the operator of the Aeroplan program, has a $250 million bond due May 2019 that pays 5.6% interest. Until recently, Aimia had an investment grade credit rating. We shorted this bond in February 2016 at a price of $101 because we thought Aimia's contract with Air Canada was at risk of being cancelled. In May 2017, Air Canada announced plans to launch its own loyalty program rather than renew its agreement with Aimia. We repurchased the bond, concluding our investment, in late May 2017 at a price of $81.

While we will continue to short stocks, shorting bonds is a natural extension of our process made possible by Randy Steuart's addition to our team. You should expect to see more bond shorts in the portfolio going forward.

<u>Miscellaneous</u>

This is your annual reminder that 2017 RRSP contributions are due by the end of February 2018 (there is no deadline for TFSA contributions). The annual RRSP dollar limit is $26,010. Total TFSA contribution room, since the program was launched in 2009, will be $57,500 in 2018. Please let us know if we can help facilitate your 2017 RRSP or TFSA investment.

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

Lastly, our Annual Meeting will take place April 25, 2018 at the Toronto Reference Library this year. We will also hold a meeting at the Calgary Petroleum Club on April 18th, 2018. We look forward to seeing many of you there.

Yours sincerely,

John Ewing	Darcy Morris
Co-Founder	Co-Founder

About Ewing Morris:

Ewing Morris & Co. Investment Partners Ltd. is a value driven Canadian investment firm established in September 2011 by John Ewing and Darcy Morris. Our aim is to achieve preservation and growth of capital for our Limited Partners by focusing on inefficient markets. We do this by relying on fundamental analysis, high conviction and the use of flexible capital. We manage strategies with a focus on small and mid-cap companies. We manage investments for individuals as well as charitable organizations, institutions and corporations.

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This letter does not constitute an offer to sell units of any Ewing Morris Fund, collectively, "Ewing Morris Funds". Units of Ewing Morris Funds are only available to investors who meet investor suitability and sophistication requirements. The Ewing Morris Funds have flexible investment mandates. Therefore, the Ewing Morris Fund's compositions are materially different than major indices listed. We have listed the above indices because they are representative of widely known and followed investment alternatives.