



# Flexible Fixed Income Fund LP

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

## Investor Presentation November 2018

Ewing Morris & Co. Investment Partners Ltd.  
1407 Yonge St., Suite 500 | M4T 1Y7 | Toronto ON  
[www.ewingmorris.com](http://www.ewingmorris.com) | 416.640.2791

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# Who is Ewing Morris & Co.?

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## Our Firm

- ▶ Toronto-based; founded in 2011
- ▶ Manage \$338 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**

<b>Martin Connell, O.C.</b>	Former CEO & Chair of Conwest Energy, Co-Founder of Ace Bakery	<b>Rosamond Ivey</b>	Head of JRS Investments	<b>Harry Rosen, O.C.</b>	Founder of Harry Rosen, Inc.
<b>Ira Gluskin</b>	Founder of Gluskin Sheff	<b>John MacIntyre</b>	Founder & Principal of Birch Hill Private Equity	<b>Bill Stedman</b>	Former CEO of Pembina Pipeline, former CEO of ENTx Capital
<b>Linda Haynes, O.C.</b>	Co-Founder of Ace Bakery	<b>David Peterson, O.ONT.</b>	Chair of Cassels Brock, former Premier of Ontario	<b>David Wilson</b>	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	9.4%	EM Flexible Fixed Income Fund	2.3%
Canadian Investment Grade	2.0%	Canadian Investment Grade	3.1%
U.S. High Yield	7.5%	U.S. High Yield	4.0%

Returns as of October 31, 2018, Class P – Master Series; 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

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Volatility		Max Drawdown	
High Yield	4.0%	High Yield	2.5%
Investment Grade	3.1%	Investment Grade	2.4%
<b>EM Flexible Fixed Income Fund</b>	<b>2.3%</b>	<b>EM Flexible Fixed Income Fund</b>	<b>0.3%</b>

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Returns as of October 31, 2018, Class P – Master Series; Drawdown and Volatility based on monthly return set  
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## How Did We Do It?

# Opportunities are mismatches between actual and perceived risks

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## Opportunity

Higher  
Perceived Risk



Low  
Actual Risk

We have clear advantages in finding opportunities

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# Our Advantages

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## Perspective

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

# Our Advantages

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## Structure

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

# Why Now?

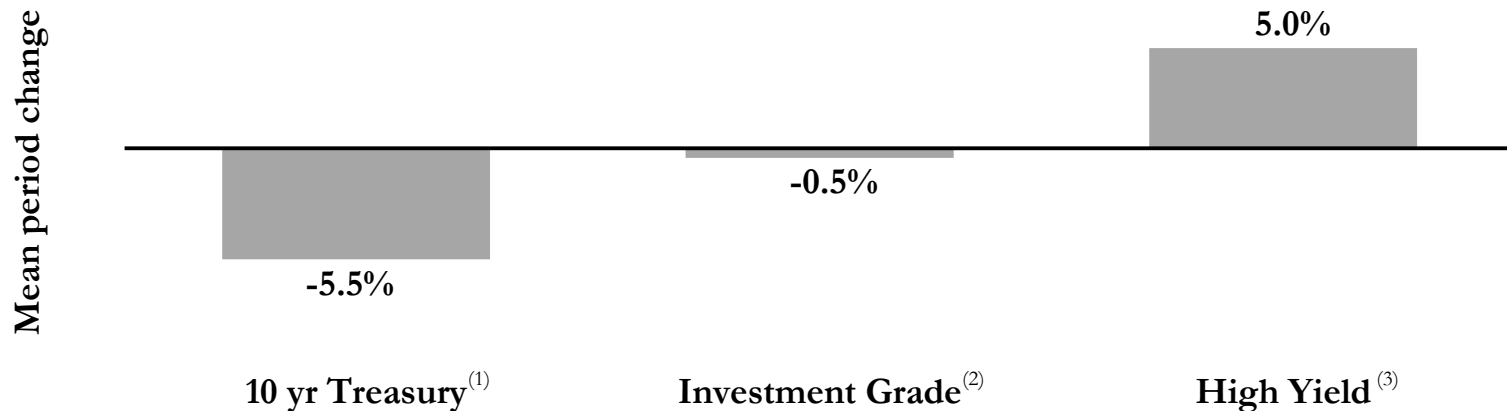
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- ▶ Good entry point – portfolio currently yields 6.4%
- ▶ High yield works when interest rates rise
- ▶ Fund has outperformed in turbulent markets

# What Actually Happens When Interest Rates Rise?

**High yield bonds have lower sensitivity to rising interest rates**

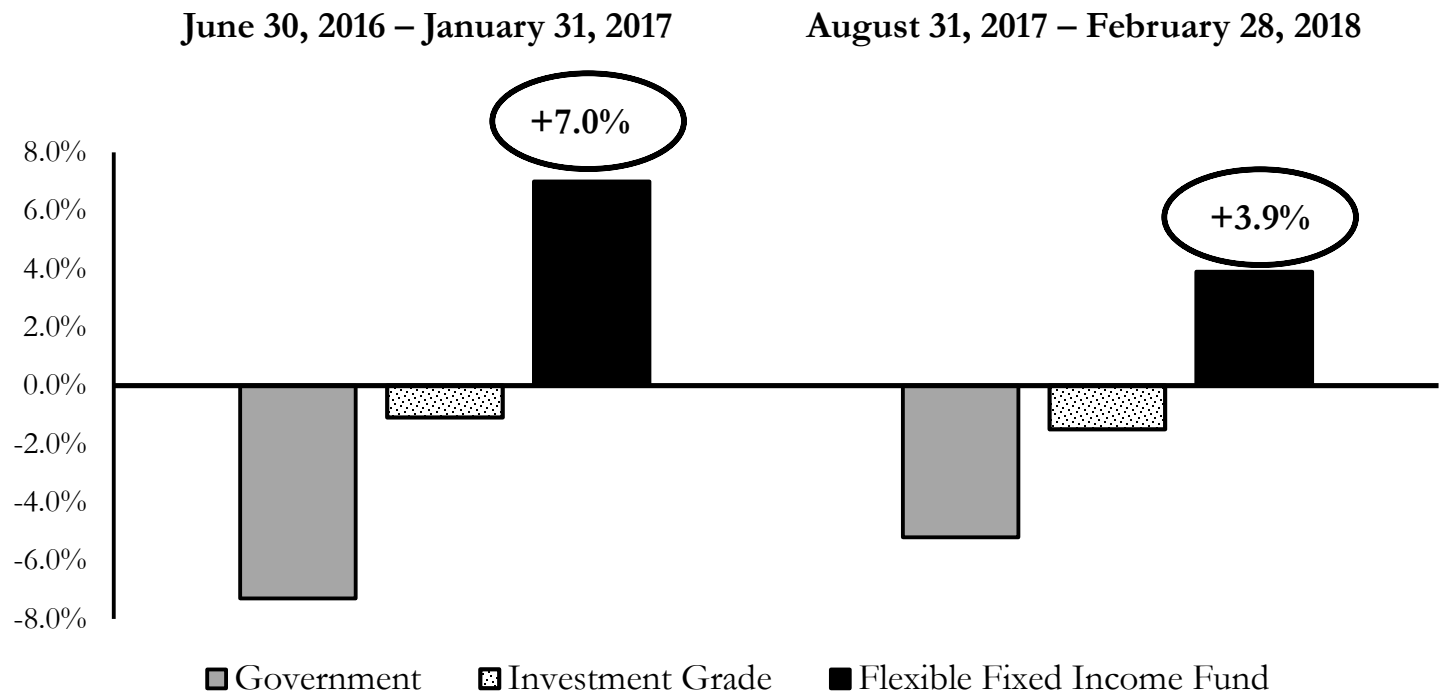
Mean bond performance during 14 periods of rate increases: 1998-2014



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

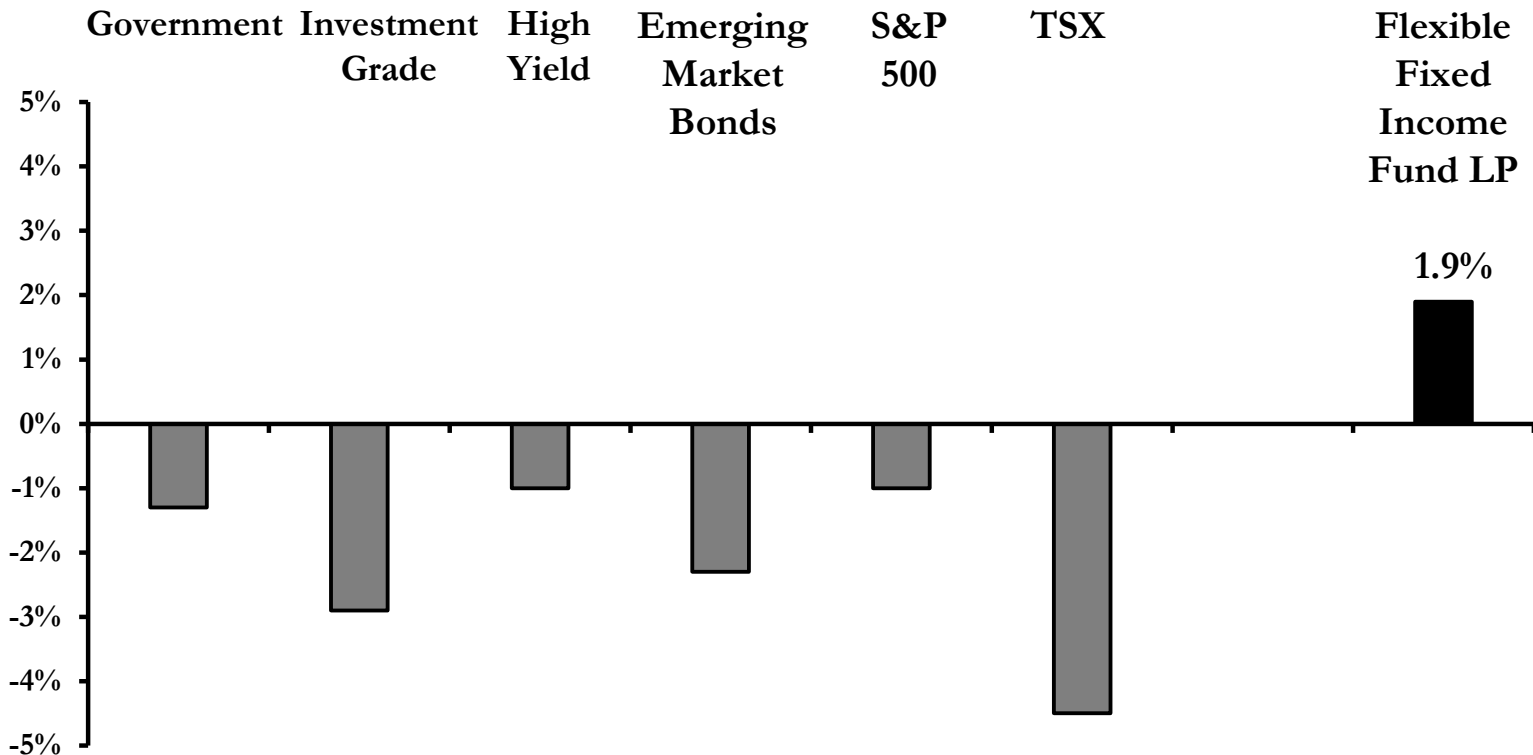
(1) BofA Merrill Lynch 10-year US Treasury Index; (2) BofA Merrill Lynch US Corporate Index; (3) BofA Merrill Lynch US Cash Pay High Yield Index.

# Protection in Turbulent Markets: Rising Rates



<sup>(1)</sup> 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

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

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# Appendix

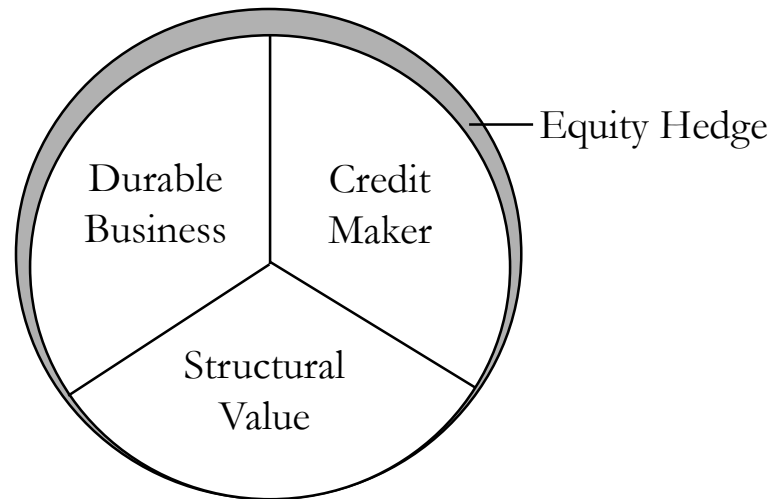


# Investment “Playbook”

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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

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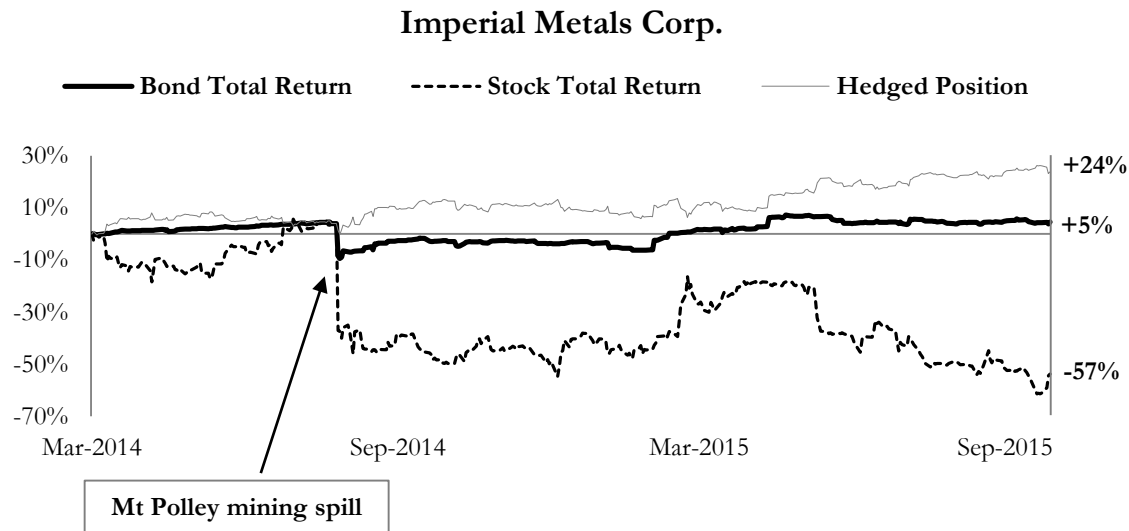
- ▶ Credit Makers act as off-balance sheet assets for creditors
- ▶ Analysis of personal incentives provides robust perspective on credit quality
- ▶ As 37% owner of Imperial and Chairman of Canadian Natural Resources, Murray had significant incentive and acted to assure the financial safety of Imperial,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

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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.

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

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Source: Bloomberg

# Structural Value Case Study

## Manitowoc Inc.

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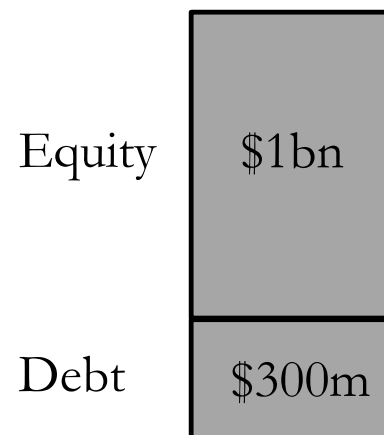
### When Issued

Yield: 12.75%  
Cash Flow: \$50m

### Today

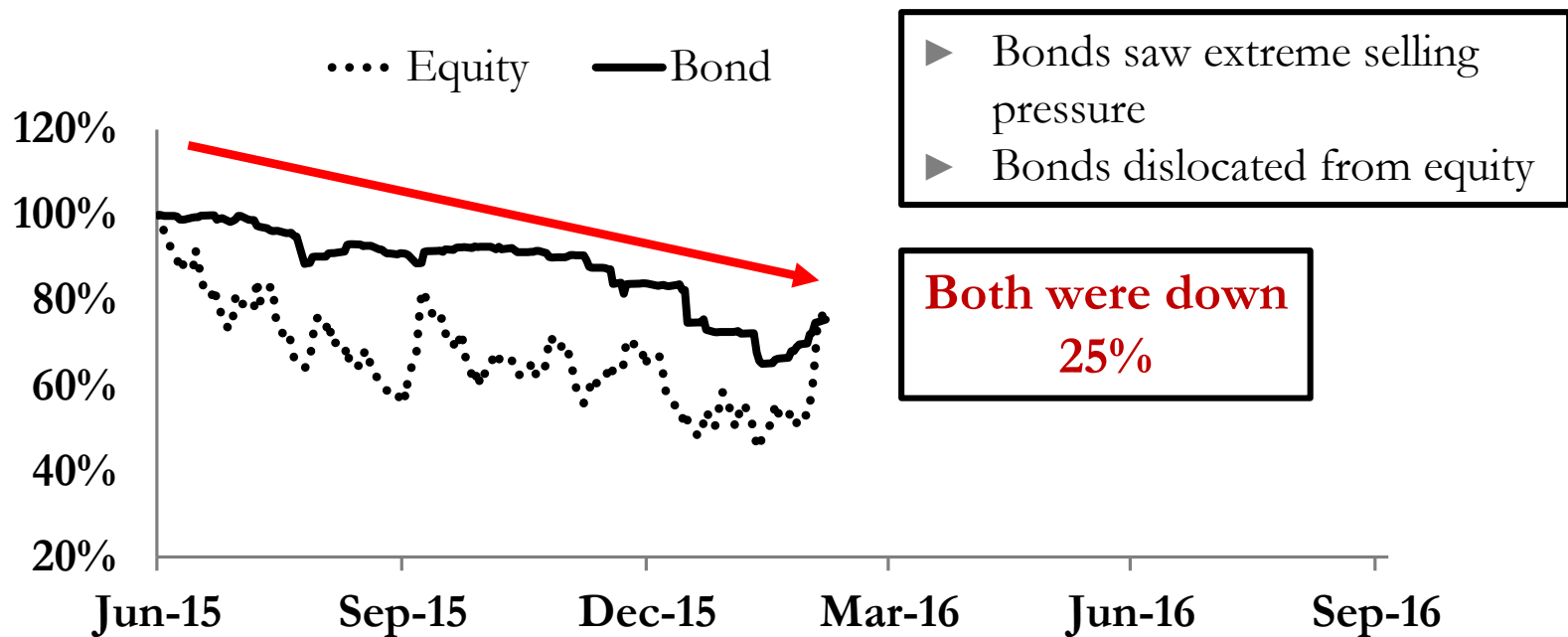
Yield: 5%  
Cash Flow: \$100m

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



# Debt versus Equity Case Study

## Precision Drilling

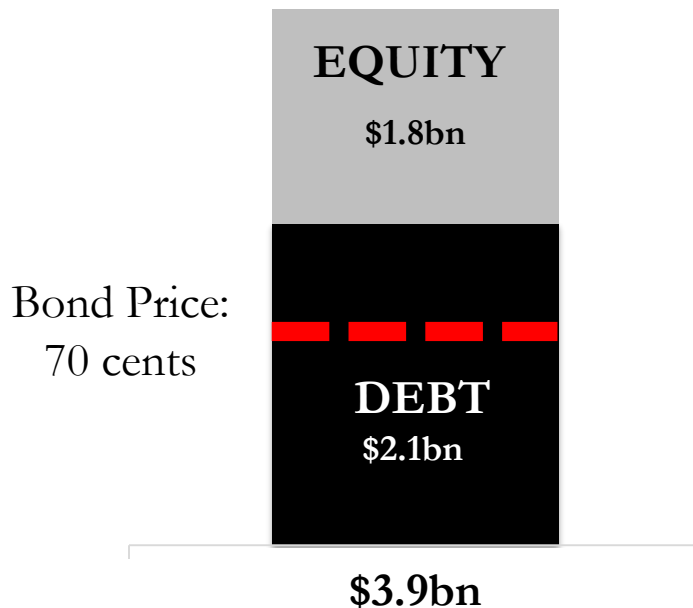


# Debt versus Equity Case Study

## Precision Drilling

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### 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

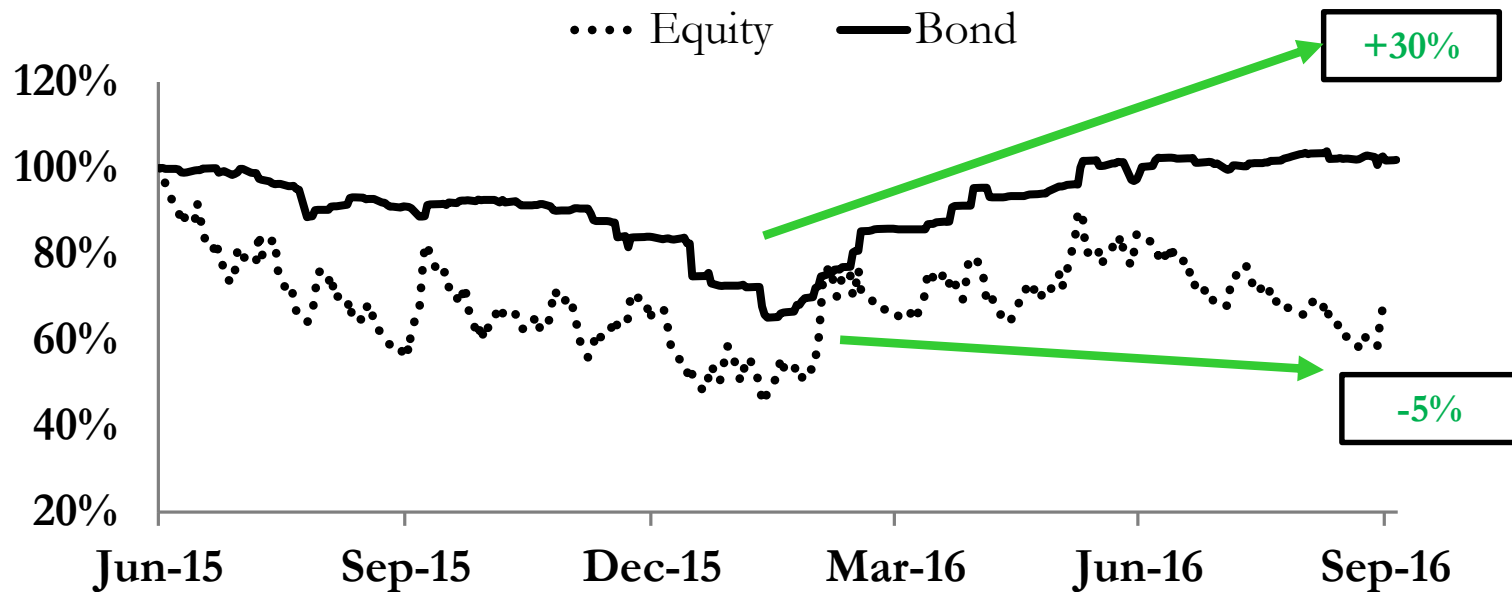
\$1.2bn



# Debt versus Equity Case Study

## Precision Drilling

### What Happened?



# Equity Hedging

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- ▶ 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

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- ▶ 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 <sup>(1)</sup>	Equity Return <sup>(1)</sup>	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 <sup>(2)</sup>	3%	2%	-0.5%	2.5%

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

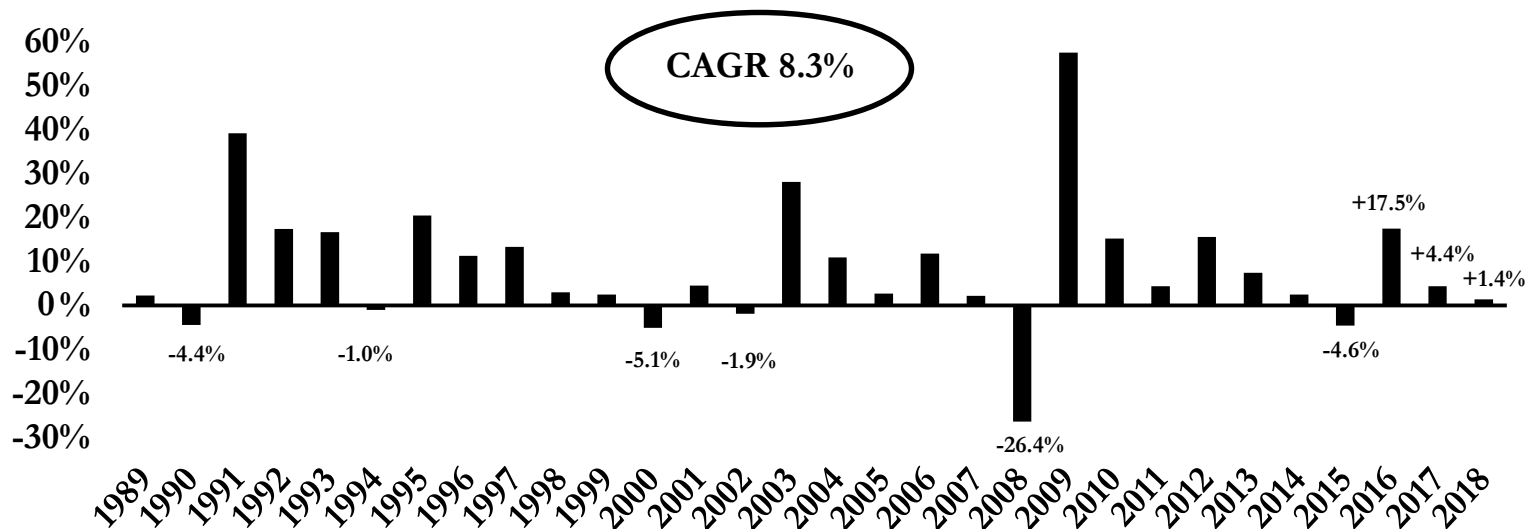
(1) Returns are as of date that hedge or entire position was exited.

(2) Preferred shares.

# Attractive Long Term Asset Class

## High Yield Index 30 Year Return History<sup>(1)</sup>

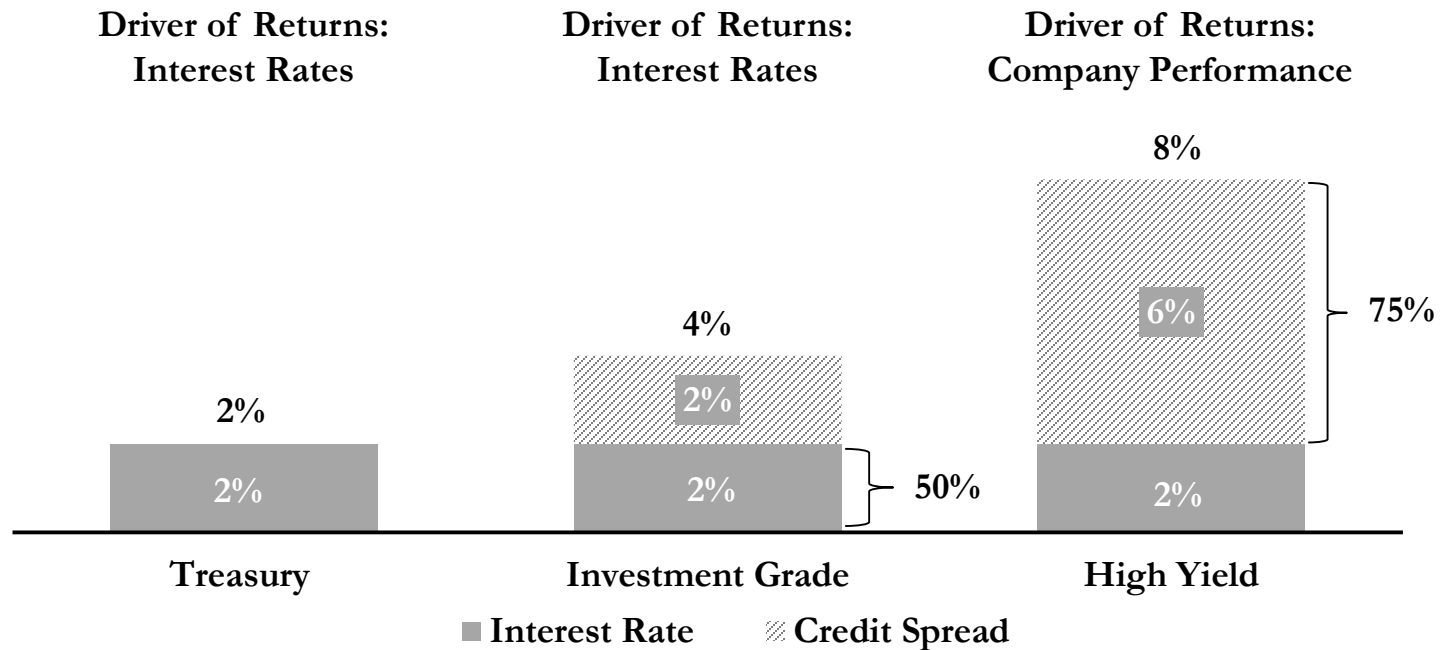
Bank of America Merrill Lynch U.S. HY Index



(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.

# Contact Us

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Darcy Morris

CEO/ Investor Relationships

[darcymorris@ewingmorris.com](mailto:darcymorris@ewingmorris.com)

416.406.4802

Randy Steuart

Portfolio Manager

[randysteuart@ewingmorris.com](mailto:randysteuart@ewingmorris.com)

416.548.5616

# Disclaimer

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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.