



# Ewing Morris Opportunities Fund LP

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

## Investor Presentation November 2018

Ewing Morris & Co. Investment Partners Ltd.  
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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

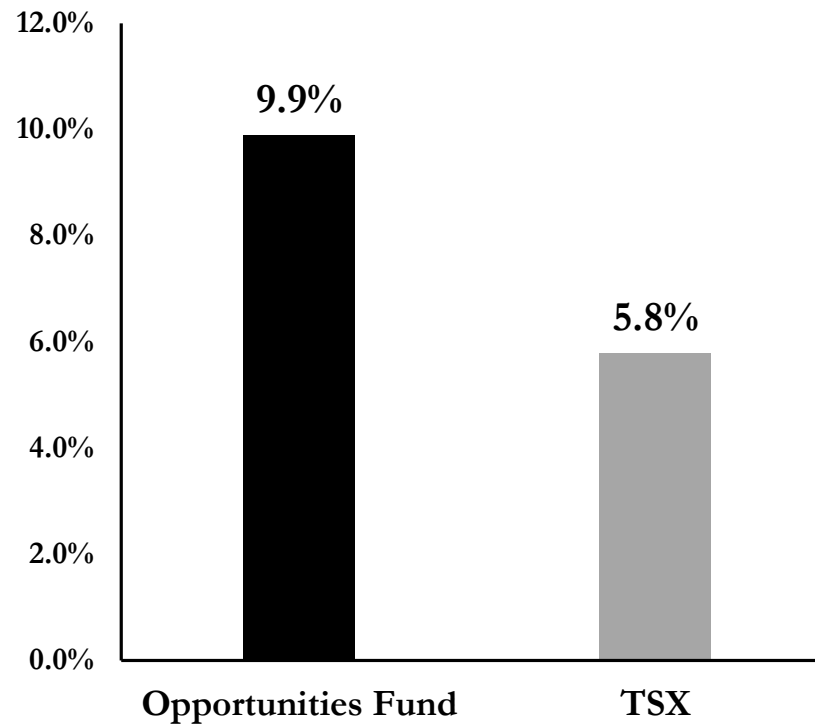
## Our Philosophy

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

# How Have We Done?

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## Annual Net Returns Since Inception



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Returns as of October 31, 2018. Past returns are not indicative of future performance. Fund returns are net of all fees and expenses. Inception date for the Opportunities Fund LP was September 9, 2011. The net return of the TSX is since the inception date of the Opportunities Fund. The benchmark return is represented by the S&P/TSX Total Return Index. We have listed this fund as it is representative of a widely known & followed Canadian equity benchmark.

# What Makes Us Different?

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## Where do we play? How do we win?

- ▶ Unique portfolio composition
    - Small/mid cap focus
    - Focused portfolio
    - Flexible mandate
  - ▶ Deep research (Boyd example)
  - ▶ Fund size advantage
  - ▶ Integrated debt/equity team
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# How Do We Do It?

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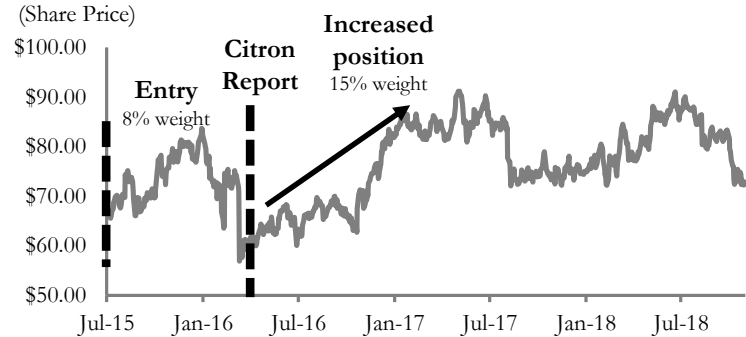
Unique "Playbook" investment strategy used to classify each investment and help maintain a disciplined investment approach

|  |   |
|--|---|
| Great Businesses<br><i>= Good Economics</i>  | Great Capital Allocators<br><i>= People</i> |
| Broken Businesses<br><i>= Poor Economics</i> | Cheap Assets<br><i>= Price</i>              |

# Case Study – J2 Global, Inc.

## Investment Summary

Investment Type: Great Capital Allocator  
 Time Horizon: July 2015 – October 2018  
 Market Cap<sup>(1)</sup>: USD\$3.6 billion



## Investment Overview

- ▶ Internet/Software (cloud services and online media)
  - Digital media accounts for  $\frac{1}{3}$  of earnings power
  - Diminishing relative contribution from eFax
  - However, eFax business remains stable
- ▶ Excellent track record of allocating capital
  - Compounded FCF per share at 15% for 10yrs
  - Little incremental debt
  - Long runway in large, fragmented industries
- ▶ Valuation
  - Attractively priced on FCF basis
  - Flexible balance sheet

## Citron Short Report

- ▶ In May 2016, Andrew Left published a short report
- ▶ J2 Global's stock fell over 25%
- ▶ Reviewed the report for any new information
  - Spoke with management, former employees, and people who had done business with the co.
- ▶ Concluded that the report was entirely promotional
- ▶ Took the opportunity to increase position to 15%
- ▶ The stock has rebounded by 40%
- ▶ Valuation still remains attractive for a company growing earning power at 20% annually

Example is not representative of entire portfolio. Past returns not indicative of future performance.

(1) Source: Capital IQ as of October 31, 2018

# Case Study – Mattel

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## **Messy Situation**

- ▶ Lost Disney license in 2014
- ▶ Toys “R” Us bankruptcy (2017)/liquidation (2018)
- ▶ Four CEOs in three years

## **Credit Market Perspective: Scared**

- ▶ Long bonds (due 2041) trade at ~80% of face value
- ▶ Bonds downgraded to junk in Q4 2017
- ▶ Leverage is high vs. trailing EBITDA

## **Equity Market Perspective: Optimistic**

- ▶ Market believes in the turnaround

*Ewing Morris Perspective: They’re both wrong*

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Data source: Capital IQ

# Why Now?

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- ▶ We anticipate positive catalysts across a number of investments in the next 12-18 months
- ▶ Maintain strong defensive position
  - Short book = 33% gross short\*
  - Fixed income >20% of the portfolio\*

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\*As of October 31, 2018



# Key Terms

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|                                  |   |
|----------------------------------|---|
| <b>Alignment of interests</b>    | 100% of John Ewing and Darcy Morris investable assets are invested in the Fund  |
| <b>Fees</b>                      | <b>Class A:</b> 1.50% annual fee + profit allocation <sup>(1)</sup> , 15-day redemption notice period<br><b>Class MT:</b> 1.25% annual fee + profit allocation <sup>(1)</sup> , 12-month redemption notice period<br><b>Class LT:</b> 1.00% annual fee + profit allocation <sup>(1)</sup> , 24-month redemption notice period |
| <b>Perpetual High Water Mark</b> | If an investor suffers a loss, the 20% profit allocation does not start accruing until after the previous losses have been recouped + 4% hurdle rate  |
| <b>Lockup provision</b>          | None  |
| <b>Liquidity</b>                 | Monthly (2% early redemption fee payable to LP)   |
| <b>Reporting</b>                 | Monthly investment statements and pricing<br>Quarterly commentary<br>Annual Limited Partners Meeting  |
| <b>Custodian/Prime Broker</b>    | TD Securities   |
| <b>Legal</b>                     | Borden Ladner Gervais LLP   |
| <b>Auditors</b>                  | PricewaterhouseCoopers LLP  |
| <b>Fund Administrator</b>        | SS&C Commonwealth Fund Services   |

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(1) 20% of profits over a 4% hurdle rate.

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# Appendix

# Portfolio Manager

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**John Ewing, CFA**

- ▶ Chief Investment Officer and Opportunities Fund Portfolio Manager
- ▶ Co-founded Ewing Morris & Co. Investment Partners in June 2011
- ▶ Former V.P. and Director of Research at Burgundy Asset Management
- ▶ Honours BSc(Eng), University of Guelph, 2005:
  - Minor in Business Administration
  - President's Trophy as Guelph's top student-athlete in 2005
- ▶ Investment Committee, University of Guelph

# Experienced Team

## 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                   | Randy Steuart             | Norrep, Marret    | 12 years                   |
| Darcy Morris              | Burgundy          | 11 years                   | Alex Ryzhikov             | Burgundy          | 8 years                    |
| Lee Matheson              | Broadview, AIC    | 15 years                   | Anthony Hammill           | Broadview, AIC    | 19 years                   |

## Advisory Board

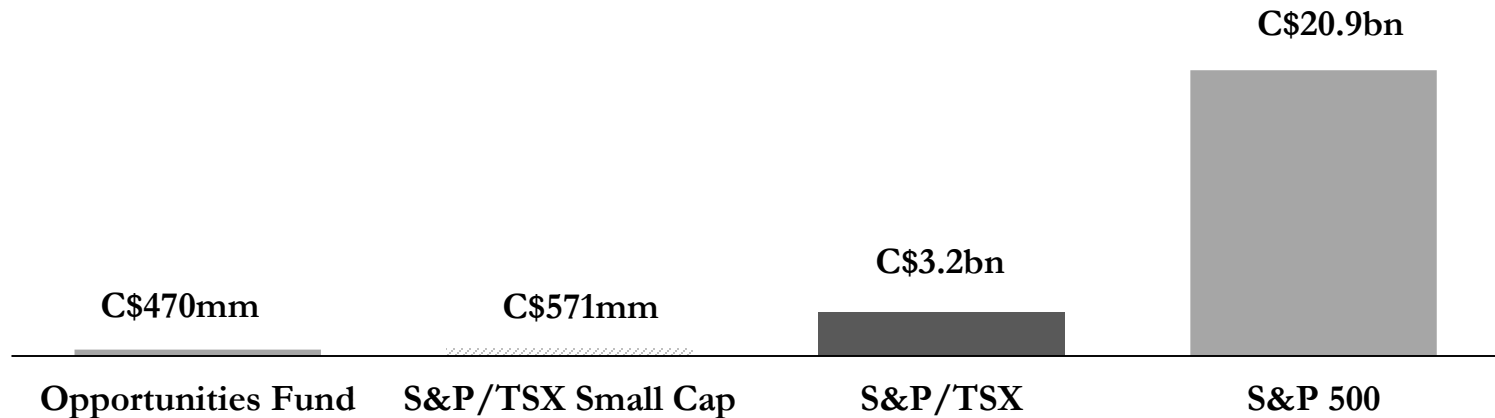
|                             |  |                               |   |                          |  |
|-----------------------------|--|-------------------------------|---|--------------------------|--|
| <b>Martin Connell, O.C.</b> | Former CEO & Chair of Conwest Energy, Co-Founder of Ace Bakery | <b>Rosamond Ivey</b>          | Head of JRS Investments                           | <b>Harry Rosen, O.C.</b> | Founder of Harry Rosen, Inc.   |
| <b>Ira Gluskin</b>          | Co-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 |

# Size Advantage

Focused on overlooked and undervalued small capitalization companies

**The median market capitalization of the Opportunities Fund is C\$470 million**

Median Market Capitalization



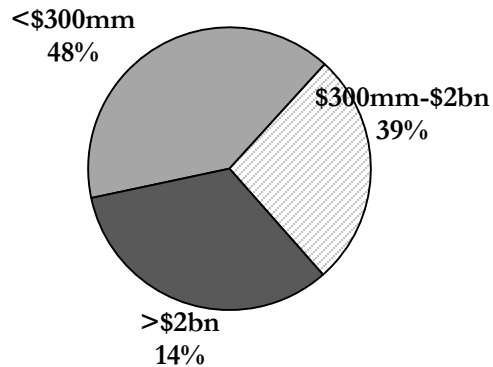
Source: Capital IQ, September 30, 2018. We have listed these indices because they are representative of widely known & followed North American equity benchmarks.

# Flexibility Advantage

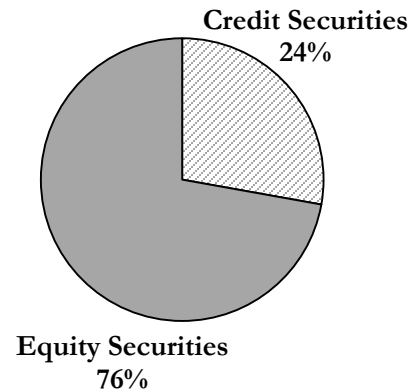
Unconstrained from traditionally rigid and inflexible investment mandates

## Opportunities Fund portfolio

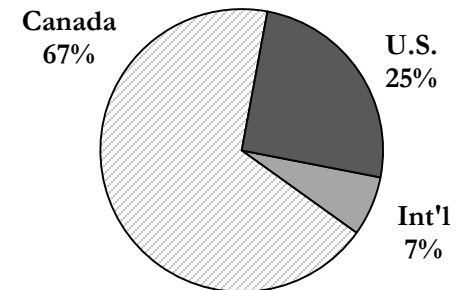
**Market Capitalization Breakdown<sup>(1)</sup>**



**Capital Structure Breakdown<sup>(2)</sup>**



**Geographic Breakdown<sup>(3)</sup>**



(1) Market capitalization breakdown of equity positions

(2) In terms of gross exposure, September 30, 2018.

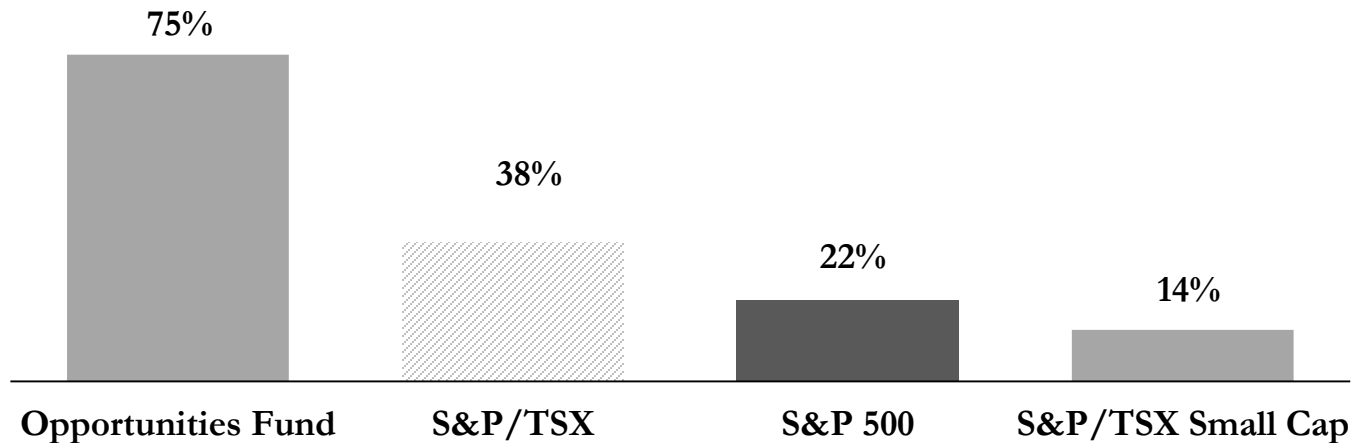
(3) In terms of net exposure [gross long – gross short], September 30, 2018.

# Focus Advantage

Meaningful holdings in highest conviction investments

**The Top 10 investments account for 75% of the Opportunities Fund portfolio\***

## Top 10 Investments\*



\*As of September 30, 2018. Breakdown of Top 10 Investments provided later in presentation. We have listed these indices because they are representative of widely known & followed North American equity benchmarks.

Source: S&P Dow Jones Indices as of September 30, 2018.

# Contact Us

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| William Jones | Investor Relations       | <a href="mailto:williamjones@ewingmorris.com">williamjones@ewingmorris.com</a><br>416.317.0050 |

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# Disclaimer

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