October 7, 2019

Dear Friends and Partners,

Investment Update

<table>
<thead>
<tr>
<th>Year</th>
<th>Ewing Morris Opportunities LP Class A¹</th>
<th>S&amp;P/TSX Composite Index with Dividends Included*</th>
<th>S&amp;P 500 Index with Dividends Included*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 (YTD)</td>
<td>0.1%</td>
<td>19.1%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Annualized (S.I.)</td>
<td>8.4%</td>
<td>6.9%</td>
<td>18.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Ewing Morris Flexible Fixed Income LP Class P²</th>
<th>iShares Canadian Corporate Bond Index ETF**</th>
<th>iShares U.S. High Yield Bond Index ETF (CAD-Hedged)**</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 (YTD)</td>
<td>3.9%</td>
<td>7.9%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Annualized (S.I.)</td>
<td>8.2%</td>
<td>3.9%</td>
<td>7.5%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Dark Horse Class A³</th>
<th>S&amp;P/TSX Composite Index with Dividends Included***</th>
<th>S&amp;P/TSX Small Cap Index with Dividends Included***</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 (YTD)</td>
<td>2.8%</td>
<td>19.1%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Annualized (S.I.)</td>
<td>10.2%</td>
<td>9.1%</td>
<td>7.3%</td>
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</tbody>
</table>

Investment Commentary

While markets have roared upward in 2019, our portfolios have lagged. The unsatisfactory results are partly due to the near-term poor performance of a handful of investments. Collectively, Ewing Morris insiders form our firm's largest client, so we share your near-term frustration.

But that’s not the whole story. The same market indices that have advanced sharply this year have barely recovered from the losses they suffered in the final quarter of 2018. Over the past 12 months, the S&P 500 has returned 6.8%, the Russell 2000 has returned -8.9% and the TSX is up 7.1%⁴. Comparatively, the Opportunities Fund has declined -6.6%, the Dark Horse Fund has gained 4.4% and the Flexible Fixed Income Fund has advanced 4.6%⁵.

We have often said that when you invest with Ewing Morris you don’t own “the market” and often won’t track closely with broader markets. In periods like the fourth quarter of 2018, when markets declined

¹ Results are as of September 30, 2019 and are net of all fees and expenses. Fund inception was September 9th, 2011.
² Results are as of September 30, 2019 and are net of all fees and expenses. Fund inception was February 1st, 2016.
³ Results are as of September 30, 2019 and are net of all fees and expenses. Fund inception was April 3rd, 2009.
⁴ Source: Capital IQ.
⁵ Results are for Opportunities Fund Class A, Dark Horse Fund Class A and Flexible Fixed Income Fund Class P, as of September 30, 2019.
sharply and our portfolios outperformed, this attribute was appreciated. In periods like 2019 when markets have advanced, this same attribute becomes a source of frustration. Our long-term objectives remain unchanged, but they will not be achieved in linear fashion. This is a long-term effort and we take comfort in our long-term results.

Equity Commentary

Our most notable misstep this year has been our investment in Uni-Select, which has had a portfolio impact of -450 basis points. Uni-Select owns three aftermarket automotive-related businesses: the largest distributor of refinish paint in the U.S., one of two large parts distributors in Canada and one of three large parts distributors in the U.K. We initially invested in Uni-Select for capital allocation potential, but we misjudged management’s capabilities and the business underperformed compared to our expectations.
In September 2018, the CEO was replaced, and the board commenced a strategic review. We expected the company to be sold either in whole or in parts by now, but the paint division stumbled in late 2018 which has further prolonged the sale process. We remain confident in the board’s ability to surface value. The stock has fallen from $20 at the beginning of the year to $11 today as the market loses faith in a transaction being realized. We have maintained the position size through 2019, lowering our average cost. While we have reduced our intrinsic value estimate for Uni-Select, the gap between price and value has widened.

Beyond the narrow lens of Uni-Select, a broader issue is the recent underperformance of small cap stocks, in general. In Canada, small cap stocks, as represented by the iShares S&P TSX Small Cap Index ETF in Figure 3, have significantly underperformed larger peers since the beginning of 2017.

In the United States, a similar divergence began in March of 2019, see Figure 4.

Over long periods of time, small caps have historically outperformed large caps. The primary reason is that smaller companies tend to grow faster and are generally more likely to be acquired. We would expect this historical relationship to be restored in the future. An example of a currently out-of-favour small cap company is IPL Plastics.

IPL is a global consumer packaging company, led by Alan Walsh, which went public on the TSX in June 2018 at $13.50 per share, with a market cap slightly above $500 million. Since going public, the business has continued to grow; EBITDA has grown more than 6% annually since 2017 and the company recently announced a large new contract that should fuel further growth into 2020. But nobody seems to care. We purchased shares in mid-2018 around $8.50. The stock has continued to decline and now trades for less

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6 Source: Capital IQ as at September 30, 2019.
7 Source: Capital IQ.
than $8 per share, more than 40% below its IPO price. Trading at ~6.5x EBITDA, IPL trades at a significant
discount to both publicly-traded peers and private market valuations. The market simply doesn’t care
about companies like IPL Plastics.

This dichotomy spells out our current dilemma of delivering poor short-term returns while remaining
confident in our longer-term strategy. This environment also requires a roll-up-your-sleeves skillset to
unlock shareholder value, as we have demonstrated with past investments like WesternOne and ZCL
Composites. This proactive approach should generate returns consistent with your long-term
expectations, but the path will be lumpy and less correlated with broader markets.

Fixed Income Commentary

As a result of being in what looks to be the very late frames of the economic (and credit) cycle, we have
focused on preservation of capital, avoiding incremental interest rate risk and credit risk. The very low
volatility of performance that we have produced over the last twelve months has been a testament to this
focus on risk control. We continue to observe little correlation in our fund performance with major
segments of fixed income markets. We regard this as a very beneficial attribute for our clients’ portfolios.

Early in 2019, we positioned our portfolios defensively to avoid, what appeared to be, the most
overvalued segments of credit (i.e. investment grade and government bonds). This year, we have
witnessed a further polarization of credit markets; BBB-rated U.S. corporate bonds have returned 14%
year-to-date\(^8\). To put this in perspective, that is the sharpest rally in the last decade.

Where to from here?

Investors naturally feel good about asset classes that have worked lately, but we think the recent
experience in the broad market is unlikely to continue. The S&P 500 Index trades at 22x earnings
compared to a historical average a little below 16x\(^9\). The return from stocks is the product of dividend
yields, earnings growth and changes in earnings multiple. If we assume historical averages of a 2%
dividend yield, 6% earnings growth and no change to earnings multiples, then investors should expect
~8% annually. If interest rates remain at current levels, this could be realized. But if rates were to rise or
a recession occur, multiples would likely contract, and returns would be much lower.

In a scenario like 2008, or the end of 2018, it is likely that our equity portfolios will provide significant
downside protection when compared with the broader markets. This is illustrated for the Ewing Morris
Opportunities Fund, in Figures 5 and 6, below. Importantly, we should also be able to harvest our shorts
and hedges and deploy capital opportunistically.

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\(^8\) Source: Bloomberg. BBB-rated U.S. Corporate bonds represented by ICE BofAML BBB U.S. Corporate Index.

\(^9\) Source: Bloomberg.
In fixed income, the rapid price movements in “high-quality” bonds leaves yields precipitously low. Take for example the largest fixed income ETF in Canada: the BMO Aggregate Bond Index ETF. This ETF has a weighted average yield to maturity of 2.2%, before fees, expenses, taxes and inflation\(^\text{10}\).

The set up looks similar to early 2018 when the highest quality bonds subsequently produced a low-quality investment experience. The math is simple: exposure to potential loss of capital is higher when rates are low. If investment grade yields returned to levels seen as recently as October 2018, investment grade bond prices would fall more than 8%, wiping out almost four years’ worth of expected returns.

With longer term interest rates near all-time lows, we see little reason to dive into bonds with investment grade characteristics which have become historically expensive. We also see little reason to chase double-digit yields available in the riskiest areas of the high yield market. Instead, we are taking the simple approach of digging up smaller, overlooked securities that have low credit risk and low interest rate risk, and tucking these securities away until their date of refinancing. Where our portfolio has more yield, many of these investments have an offsetting equity hedge to reduce risk and portfolio volatility. This approach doesn’t make for flashy short-term results, but it is at times like these that return of capital, as opposed to return on capital, should be most valued.

Miscellaneous

After more than a decade as Co-Manager of the Dark Horse Fund, Lee Matheson has informed us that he will be resigning, effective later this month. Anthony Hammill will remain as Portfolio Manager and be joined by John as Co-Manager.

We are delighted to welcome Joe Rooney to the Ewing Morris team. John, Darcy and Alex all worked with Joe at Burgundy Asset Management. At Burgundy, Joe held several roles including Head of the Private Client Group and Head of the U.S. Institutional Group. Most recently, Joe was the CFO at Sightline Innovation where he gained valuable experience as a business operator. Joe has a Bachelor of Arts in

\(^{10}\) Source: BMO Factsheet as of August 30, 2019.
Economics from Wilfred Laurier, a Master of Finance from University of Toronto and is a CFA Charterholder. Joe is an excellent communicator and possesses a deep understanding of our investment approach.

As always, please do not hesitate to contact us if you have any questions or anything is unclear in this letter.

Yours sincerely,

John Ewing
Co-Founder and CIO

Darcy Morris
Co-Founder and CEO
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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