EWING MORRIS
INVESTMENT PARTNERS LTD.

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"In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could." – Rüdiger Dornbusch

Dear Friends and Partners,

We have now completed our eighth 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.

	2019	3 years	5 years	Since Inception[1]
Flexible Fixed Income Fund	**5.4%**	**5.7%**	**---**	**8.0%**
iShares U.S. High Yield Bond Index ETF (CAD)	*12.9%*	*4.7%*	*---*	*7.8%*
Opportunities Fund	**5.7%**	**6.1%**	**7.5%**	**8.8%**
S&P/TSX Composite Index	*22.9%*	*6.9%*	*6.3%*	*7.1%*
Dark Horse	**1.2%**	**5.0%**	**3.6%**	**9.8%**
S&P/TSX Small Cap Index	*15.8%*	*-0.9%*	*3.2%*	*7.7%*
Canadian Small Cap Fund	**19.2%**	**5.9%**	**---**	**10.8%**
S&P/TSX Small Cap Index	*15.8%*	*-0.9%*	*---*	*2.4%*

Year in Review

Last year at this time, approaching 2019, we wrote:

> *Many investors are nervous, with good reason: political uncertainty, trade disputes and rising interest rates are among the most obvious. Another challenging year would not surprise us. But before investors defer all investment decisions, they should recognize that successive years of*

[1] Returns are since inception of the Fund to December 31, 2019. See page 5 for full disclaimer details and Fund inceptions dates.

negative returns are rare for stocks and unprecedented for high yield bonds. A strong recovery in 2019 would not surprise us either.

As we enter the new year, we remain primarily focused on uncovering compelling investment opportunities in companies that are undervalued, have an ability to withstand adversity (i.e. strong balance sheets and resistance to industry change), and that are run by management teams we trust. Our current collection of small and mid-sized companies continues to perform well and the recent sell-off has made valuations more attractive. If we can continue to identity such opportunities, then, we believe, our investment results will take care of themselves.

As it turns out, in 2019, the winning strategy for investing was to buy anything. The markets were fueled by an unexpected *reversal* in the direction of interest rates. Over the last five years, a significant portion of the return in stocks and bonds has been driven by interest rate declines and the widely held belief that they will remain low for a long time. At Ewing Morris we don't attempt to predict interest rates over the short or medium term. Rather, we remain skeptical about anyone's, including our own, ability to predict the future. After all, not many people predicted that the market would be up nearly 30% last year. And the idea that markets will continuously go up is dangerous because it leads to complacency.

When you invest with Ewing Morris you don't own the market. We invest in the equity and bonds of smaller and mid-sized companies, after doing our homework and evaluating the people. The returns are not dependent on rates staying low or going lower. If the interest rate narrative changes, the outlook for our investments will generally remain unaffected. We always ask ourselves what our edge is over other market participants in any potential investment. If we don't feel we have an edge, we don't invest. As mentioned above, forecasting interest rates is not our edge.

In order to be successful, we believe an investor needs to be patient, act independently and approach the market with a contrarian mindset. While none of these are easy to stay true to, they are prerequisites for generating strong long-term absolute and relative returns. These character traits are part of the foundation of the Ewing Morris process and approach. This has not, and will not, change. In a year like 2019, we are not surprised that an index fund performed better, and our Limited Partners should not be either. The cost of performing well in bad times can be relative underperformance during periods of exuberance. We have always judged this to be a worthwhile price to pay.

Update on the Ewing Morris Opportunities Fund LP

Several of our larger investments, including J2 Global (+35%), Parkland Fuel (+35%) and Strad (+50%), experienced large, positive gains in 2019. However, a few investment ideas, including Coty, Tempur Sealy and Calfrac Well Services, did not play out as we had expected and resulted in capital impairments. As in prior years, we will elaborate on these, and the lessons learned, in our in-depth Report Card letter that accompanies the audited financial statements.

For the year, Uni-Select declined 41% and represented the single largest detractor from our results. On December 18, 2019, Uni-Select announced a $125 million convertible debenture, led by several existing shareholders including Birch Hill Equity Partners. Two of Birch Hill's partners have been appointed to Uni-Select's board. This transaction stabilizes Uni-Select's balance sheet and improves governance. The stock market's reaction to this transaction has been muted, but, in our view, the company's position, going forward, has been strengthened considerably. Unlike the capital impairments described above, we believe the losses recognized on Uni-Select in 2019 are transitory.

The past year was a time of planting seeds for future harvests. For the second time since 2015, we have more investment ideas than capital. We identified three new opportunities in 2019. We continue building our position in each of these three companies. We have been concentrating the portfolio into our top ideas; the top ten investments now represent close to 75% of capital compared to about 63% in mid-2019. We plan to invest additional personal capital into the Fund in the first quarter of 2020, and we believe this to be an opportunistic time for our Limited Partners to consider investing additional capital as well.

In general, we continue to approach the general market with caution. Our strategy for last year contained defensive hedging including some fixed income investments and shorts. We continue to maintain this same cautious approach going into this year.

Ewing Morris Flexible Fixed Income Fund LP

We delivered a 5.4%[2] return over the last 12 months. While this is within our stated long-term goal of "5-8%" it was not particularly satisfying in light of a benchmark return of 12.9%[3]. We began the year in a defensive posture with low credit and interest rate exposure. Investors willing to take those risks in 2019 were rewarded. Not surprisingly, our equity hedges were a meaningful drag on our results. Since inception in 2016, we are up 8.0% versus the benchmark's 7.8%[4].

Unlike with stocks, it is mathematically challenging for bonds to provide double-digit returns in consecutive years, particularly when the second year begins with the benchmark yield only slightly above 5%. Statistically speaking, the high yield market looks expensive today. In particular, the highest quality (i.e. BB-rated) portion of the high yield market, which represents about half of the entire high yield market, is remarkably expensive. In absolute terms, BB-rated bonds currently yield 3.5%[5], less than they ever have. In relative terms, the spread between BB-rated bonds and government bonds has not been this narrow since early 2007, just prior to an epic collapse in bond prices.

In response, we have further reduced risk while seeking opportunity in unconventional corners of the fixed income landscape. One unconventional source of opportunity is Canadian floating rate preferred shares. For example, five years ago, BCE Inc.'s (formerly Bell Canadian Enterprises Inc.) floating rate

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[2] Returns based on the P Class, Master series, net of fees and expenses. Returns are to December 31, 2019.
[3] iShares U.S. High Yield Index ETF (CAD-Hedged). Source: Bloomberg.
[4] iShares U.S. High Yield Index ETF (CAD-Hedged). Source: Bloomberg. Inception of the Fund was February 1, 2016.
[5] iShares U. S. High Yield BB Index ETF (CAD-Hedged). Source: Bloomberg. As of December 31, 2019.

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preferred shares yielded less than the company's long-dated bonds (4.2% vs. 4.5%)[6]. Today, due to extreme negativity in the preferred share market, BCE's preferred shares yield 6.75% while the long-dated bonds yield just 3.7%[7]. This extreme divergence represents an attractive investment opportunity even before considering the tax advantages associated with preferred shares.

We would not be surprised by increased bond market volatility in 2020. We expect our flexible approach will continue to demonstrate its value in client portfolios.

Miscellaneous

In 2019, we launched our Partners Fund which gives our Limited Partners access to our full investment team and their expertise across our strategies. The Partners Fund dynamically allocates to each of our strategies with average balanced weighting of 70% equities and 30% fixed income. We believe this is an excellent long-term wealth creation vehicle for our Limited Partners.

Since 2015, we have been managing a long-only strategy focused on Canadian Small Caps. Previously, this strategy was only available to institutional investors. Late last year we launched the Ewing Morris Canadian Small Cap Fund LP, available to accredited investors. Feel free to **reach out to us** for more information on the Fund.

This is your annual reminder that 2019 RRSP contributions are due by the end of February 2020 (there is no deadline for TFSA contributions). The annual RRSP dollar limit is $27,230. Please let us know **how we can facilitate** your 2019 RRSP or TFSA investments for either fund.

PwC has begun their annual audit and we will deliver our comprehensive Annual Report and final tax information to Limited Partners 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 on Thursday, May 14, 2020 at the Toronto Reference Library. We will host a comparable session in Calgary on Thursday, May 7, 2020 at the Petroleum Club. We look forward to seeing you there.

Yours sincerely,

John Ewing
Co-Founder and CIO

Darcy Morris
Co-Founder and CEO

[6] Source: Bloomberg.
[7] Source: Bloomberg. As of December 31, 2019.

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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**Returns are since inception of the Funds. Inception date of the Opportunities Fund is September 9, 2011. Opportunities Fund returns reflect Class A – Master Series, net of fees. Inception date of the Dark Horse Fund is April 3, 2009. Dark Horse Fund returns are net of fees and expenses and are for the consolidated series. Inception date of the Canadian Small Cap Fund is May 1, 2015. As of November 1, 2019, returns are those of the Ewing Morris Canadian Small Cap Fund LP. May 1, 2015 to October 31, 2019 returns are based on an initial separately managed account, which shared a similar investment objective and strategy as the Ewing Morris Canadian Small Cap Fund LP. On October 31, 2019 the managed account assets were transferred into the Ewing Morris Canadian Small Cap Fund LP. Returns are gross of all fees, and do not include management fees, performance fees, expenses and taxes. Returns will be reduced by the management and performance fees, as applicable, and other expenses incurred in the management of this account. Inception date of the Flexible Fixed Income Fund is February 1, 2016. Flexible Fixed Income Fund returns reflect Class P - Master Series, net of fees. Where performance period is longer than 12 months, the return is annualized. We have listed these benchmarks as they are representative of widely known and followed benchmarks in their respective categories. The Ewing Morris Funds have flexible investment mandates and thus these benchmark indices are provided for information only. Comparisons to benchmarks and indices have limitations. The Funds do not invest in all, or necessarily any, of the securities that compose the referenced benchmark indices, and the Fund's portfolio may contain, among other things, options, short positions and other securities, concentrated levels of securities and may employ leverage not found in these indices. As a result, no market indices are directly comparable to the results of the Funds. Past Performance does not guarantee future returns. 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. While information prepared in this report is believed to be accurate, Ewing Morris & Co. Investment Partners Ltd. makes no warranty as to the completeness or accuracy nor can it accept responsibility for errors in the report. This report is not intended for public use or distribution. There can be no guarantee that any projection, forecast or opinion will be realized. All information provided is for informational purposes only and should not be construed as personal investment advice. Users of these materials are advised to conduct their own analysis prior to making any investment decision. Source: Capital IQ and Ewing Morris. Returns are as of December 31, 2019.*