EWING MORRIS
INVESTMENT PARTNERS LTD.

Ewing Morris & Co. Investment Partners Ltd.
1407 Yonge Street, Suite 500
Toronto, ON, Canada M4T 1Y7

telephone: 416 640.2791
www.ewingmorris.com

April 9, 2020

Got junk?

In a world full of uncertainty and complexity, investment decisions still must be made. Pensions have liabilities, endowments and foundations have spending rates, and individuals have retirement goals and lifestyles to sustain after some sort of "normalcy" is resumed.

In an environment like today, it is always best to narrow the scope of your analysis and limit the number of questions you must answer correctly. Fixed Income isn't about if, and when, a company will grow sales or earnings. It is generally about: "Will this entity survive and repay my loan?". With ten-year treasuries yielding 0.74%[1], the challenge that remains is that many of these investments do not provide the returns necessary to satisfy liabilities, spending rates and retirement goals.

We have examined asset class returns over the last 30 years which covers multiple crises. Which of these three asset classes would you rank best?

Asset class	CAGR	Max drawdown	Worst month	Annualized volatility	Sharpe ratio[2]
A	9.1%	-50.9%	-16.8%	14.5%	0.51
B	6.8%	-43.3%	-20.1%	14.2%	0.36
C	7.8%	-33.2%	-16.3%	8.4%	0.73

We would choose "C". You received most of the return of "A" with substantially less downside and volatility.

Here is the table again, this time with labels:

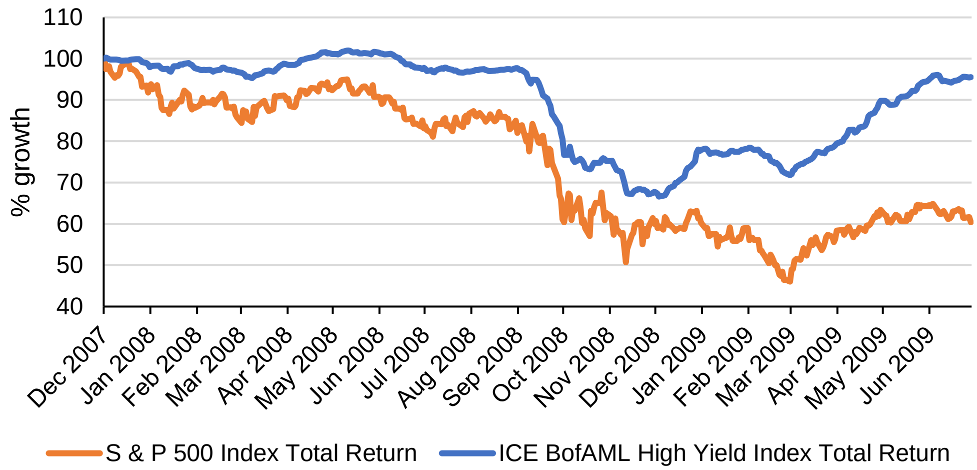
Asset Class	CAGR	Max drawdown	Worst month	Annualized volatility	Sharpe ratio
S&P 500 Index	9.1%	-50.9%	-16.8%	14.5%	0.51
S&P/TSX Composite Index	6.8%	-43.3%	-20.1%	14.2%	0.36
BofAML High Yield Index	7.8%	-33.2%	-16.3%	8.4%	0.73

Source: CapitalIQ. Based on total returns from January 1, 1990 to March 31, 2020.

High Yield (aka junk bonds) are clearly a powerful tower when constructing client portfolios. Despite High Yield's compelling risk-adjusted return profile, most Canadian investors have limited exposure to the asset class. Therefore, do you "Got Junk?" is an important long-term asset allocation question.

[1] As of April 9, 2020. 10-year U.S. Treasury Yield Index. Source: Morningstar.
[2] Sharpe Ratio is a hypothetical measure of excess return. The Canada 3-month treasury bill rate is used as the risk-free rate of return in calculating Sharpe Ratio.

Given the current uncertainty, it is equally important to examine how well High Yield (Junk) Bonds performed through an entire period of crisis. We have studied multiple bear markets but have highlighted the Global Financial Crisis (GFC) as it is most familiar to many investors.



Source: Bloomberg. The period from December 7, 2007 to July 7, 2009 illustrates the drawdown of high yield during the Global Financial Crisis.

As demonstrated by the chart above, High Yield Index delivered more reliable results than the S&P 500 through the GFC.

In today's environment, once again the data is clear, "Got Junk" can play an important role in your portfolio amid a crisis.

At Ewing Morris, our Flexible Fixed Income Fund invests in the high yield bond universe. Our focus on durable businesses, run by people we trust, with strong covenants where needed, gives us the confidence that our companies will survive and repay their debts.

Today, the Fund yields 9.75%[3] to maturity. We feel more than adequately compensated despite the uncertain economic environment.

For investors who are attempting to reduce the volatility of their portfolios without sacrificing expected return, there is a clear action to take: "Get Junk".

[3] As of April 8, 2020.

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.

CONTACT INFORMATION:
Ewing Morris & Co. Investment Partners Ltd.
1407 Yonge St., Suite 500
Toronto, ON M4T 1Y7
Canada
info@ewingmorris.com
Tel: 416.640.2791

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. We have listed the ICE BofAML High Yield Index as this benchmark is representative of the broader high yield market. 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. Sources: CapitalIQ, Bloomberg and Ewing Morris.