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

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The Fund finished March down 16%. While that certainly outperformed the broader markets, it did not do so to the degree we would have hoped. Our short book did its job but, unfortunately, the long book was taken to the woodshed with even our more "cash-like" securities selling off. The wave of selling and liquidations that brought the broader indices down by 20-30% from the late-February highs absolutely ravaged many of our long investments.

Typically, these letters don't address whatever it is that everyone else is talking about. The thinking has been that the Fund doesn't invest in the mainstream of the market so the benefit of us commenting on the same headline issues that are already dominating investor discourse is minimal. COVID-19, however, is simply too pervasive an issue to ignore. This unparalleled public health crisis has affected most every aspect of the global economy in a meaningfully negative way. In short, huge swaths of the economy have been shuttered indefinitely.

The world is enduring a catastrophic tragedy which no amount of hopeful talk, artisanal hand sanitizer or homemade sourdough can obfuscate. From the Canadian health and safety context, we are personally encouraged by the results of the early mitigation efforts. While a centralized healthcare system, reasonably obedient populous, and other factors have assisted, credit is due to our national, provincial and municipal leadership for their actions in helping to prevent an even worse tragedy from taking hold.

Investing in the midst of this crisis is tremendously difficult as one is stuck between two very powerful countervailing forces – the first is the value destruction wrought by a shuttered economy, while the second is a tidal wave of liquidity hoping to prop up asset prices. In late February and March, the former clearly won out. So far this month, the latter seems to be prevailing at least as it relates to more liquid securities.

The net result has the major indices surprisingly undisturbed from where they began the year and down relatively modestly from the all-time, pre-COVID highs of late February. Trying to quantify exactly what the appropriate haircut for the impact of COVID would be is impossible, particularly in real-time. That being said, a quick glance at the charts of the major U.S. equity, investment grade and high yield indices doesn't quite match the negativity one may imply from the quantum of unemployment claims, mortgage deferrals or actually living through this period.

The consensus of Mr. Market seems to be that the impact of the lockdown we are living through will be severe with few exceptions, but once we get to the summer and beyond, everything will be pretty much fine. It is hard to reconcile this optimism for a V-shape recovery with the facts on the ground and the reality that, while there is some hope for a bending of the curve, there is still no playbook or timeline for what comes next. Recent reports are indicating we may be subject to some sort of social distancing requirements well into 2022.

Maybe this will all be fleeting and the recently announced Committee to Re-open the Economy will expertly stickhandle the most complicated economic major works project since the New Deal. After all, a full 2/7ths of the committee is staffed by the daughter and son-in-law of a dodgy real estate seminar host turned U.S. President. We would love to be wrong but would not bet on the current administration successfully staging the world's largest economy back to its full function without at least a handful of major setbacks along the way. Even with perfect management, the shoulder season between complete shutdown and business as usual will likely be an extremely challenging period for many industries.

For the Dark Horse, we know exactly what we want this Fund to look like exiting this crisis. We want to go full circle – bringing the Fund back to its roots. The Dark Horse was launched at the beginning of 2009, a time not entirely dissimilar to our current situation. At that time, the fund had very few short positions and no overly-complicated activist files. The portfolio was primarily absurdly cheap stocks and cash. If anything, we shouldn't have bothered with the cash but that was somewhat unavoidable given how capital flowed in.

The dislocation of the Global Financial Crisis of 2007 and 2008 provided an opportunity to run the Fund relatively unbridled. When we could invest in businesses with bulletproof balance sheets, profitable operations and substantial upside to an even half-functioning economy that was all the hedging we required. We already lived in the world of "what could go wrong" so there was no real need to pay to protect against it. The prospect of returning to such positioning is a touch scary, but at the same time, a tad exciting.

It is not, however, our belief that we have reached that point. While certainly there are tremendous absolute bargains on offer, there remains a significant possibility of a further painful retrenchment as the reality of the pandemic's impact becomes clearer. Large portions of the market remain at elevated valuations and do not yet appear to have fully accounted for the real and lasting impacts of this crisis. Until that reckoning occurs, we believe it is premature to go "all in". Today's bargains could still be subject to another round of brutal markdowns. Historically, the first leg down is rarely the last.

The temptation to be more aggressive is certainly there. We have added to a couple positions and are considering a handful of new names. Alcanna Inc., which we highlighted last quarter, is one of the very rare cases of a company that is actually thriving in this environment. There are few businesses better suited to a world of forced social distancing (and working from home with children) than retail liquor sales. That being said, the stock has still been crushed. By and large, where we have added, we have trimmed other positions or added to the short book.

With the market showing such disdain for small cap Canadian securities the relative strength of a business like Alcanna's has simply not mattered. While we would love to imagine a world where the market immediately returns to properly performing its weighing machine functions, it is difficult to have faith that will occur while we are still in the grips of this pandemic.

Where we do have faith is with those at the frontline of this battle. Earlier we mentioned the difficulty in managing money in the midst of this crisis. That sounds absurdly trite in the context of those whose profession puts them and their families in direct exposure to this deadly virus. I spent my high school years as a stockboy at the Aurora A&P. Apart from a wonky bailer and a shocking amount of second-hand smoke in the break room, that was not a job that was supposed to put anyone in mortal danger. Today it does. So, does driving a bus, caring for seniors, delivering food, covering the news or cleaning hospital floors. Our gratitude goes out to those who continue to keep us fed, safe and healthy. On behalf of us and all our loved ones, thank you.

Sincerely,

Anthony Hammill John Ewing

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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 equity and credit strategies with a focus on North American small-capitalization companies and high yield bonds. We manage investments for individuals as well as charitable organizations, institutions and corporations.

CONTACT INFORMATION:

Anthony Hammill, CFA
(416) 406-4808 or **anthonyhammill@ewingmorris.com**

Darcy Morris
(416) 406-4802 or **darcymorris@ewingmorris.com**

Ewing Morris & Co. Investment Partners Ltd.
1407 Yonge St., Suite 500
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Canada
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