Table of Contents

Opening Remarks

Recent Results

Portfolio Positioning

Growth Investing at Ewing Morris

Conventional Growth Investing

Unconventional Investing for Growth

Q&A

Closing Remarks
Will Jones: Good afternoon folks, Will Jones here. I will be moderating today’s update call.

The format of today’s call will include a strategy update on the Small Cap Fund, a review of portfolio positioning and a discussion about our approach to investing for growth. We received a number of questions in advance of the call and have addressed these both in our discussion and in the Q&A.

We will try to keep today’s remarks under 30 minutes and will follow up with each of you individually with the transcript and to address any follow up questions you may have.

I’ll be back with you a little later for Q&A and will now turn things over to Darcy.

Darcy Morris: Welcome everyone to the call, it’s Darcy Morris, CEO of Ewing Morris and I’m joined by my co-founder and Chief Investment Officer, John Ewing.

Through the third quarter of 2021, investment results remained strong. In fact, investment performance has been extraordinary for the year-to-date.

We continued to execute on our expansion into real estate and co-investment special purpose vehicles.

The Patoma team now has several rehabilitation and development projects in contract in Brooklyn and Queens, New York.

On the co-invest side, our investment in Cedar Realty Trust, where I now serve on the Board of Directors, has performed well and in September the Board announced that it has initiated a dual track process to review strategic alternatives in order to maximize shareholder value.

This month we held a first close on a co-investment vehicle focused on an engagement investment in a $500 million NYSE-listed industrial business. I’m pleased to note that we received commitments of $18mm USD and plan to have a second close next week.

On the fixed income side we continue to deliver strong results with the Flexible Fixed Income Fund returning 8.2% YTD compared to 2.5% for the US high yield index. That’s a lot of value-add in a tough interest rate environment.

We are reinvesting in the firm to support current growth in terms of recruiting senior personnel and investing in our operational infrastructure. We continue to be a small firm in terms of headcount but we have a distinctive culture characterized by entrepreneurialism, excellence, team work, integrity and a
commitment to protect capital. I couldn’t be more impressed with the quality of the team at Ewing Morris.

Today’s call is focused on providing an update on the Small Cap Fund. I’m going to comment on our recent results and portfolio positioning and then John is going to speak in-depth about how we are unearthing investments in the current market environment.

Through the past three months ending October 31, results have continued to be strong. As you can see in the first column, the funds have significantly outperformed.

This gives a better visual representation of the long-term value that has been created by the Fund. You can see while the markets have been strong, we have significantly outperformed.

There does seem to be a sense of complacency in the broad markets, but as we like to remind people, at Ewing Morris “we don't' own the market”. We own a focused collection of businesses that we know well and are run by people we trust. The top ten holdings in the Small Cap Fund represent 65% of our capital.
It’s also important to remember that stock prices are the by-product of underlying business performance.

You can see that our companies continue to deliver outstanding business results:

- Almost all our companies beat analyst expectations for third quarter results
- And our companies grew at almost 40% in the third quarter

Portfolio-level statistics are abstract. We think about value creation in our companies in four ways:

1. They grow organically
2. They make good acquisitions
3. They repurchase shares below intrinsic value
4. They reduce interest costs by refinancing debt at lower rates

Here are a few examples of how our companies built value in the third quarter:

Tricon Residential owns a large portfolio of for-rent homes in the US Sunbelt. With the help of new capital, Tricon was able to increase its portfolio at a record pace in the third quarter. Americans have continued flocking to Tricon’s markets, which resulted in increased rent for new tenants by 20% and increases on rent renewals by a still healthy 5%.

Focus Financial has been busy with tuck-in acquisitions (which is core to our investment thesis); 2021 will represent a record-year for Focus’ acquisition program.

There were no significant buyback announcements in the quarter.

Uni-Select refinanced its bank debt in Q3, reducing its interest rate and stand-by fees while increasing flexibility. Through a combination of improved performance and debt paydown, Uni-Select has cut its leverage ratio from 4x at the beginning of the year to just 2.3x today.

I would like to highlight one more corporate event from the quarter:
J2 Global successfully completed the spin-off of its legacy fax business into a new company called Consensus Cloud Solutions. In recent years, Consensus has developed a differentiated corporate solution that resulted in strong demand from the health care sector. With this injection of growth, Consensus was capable of standing alone as an independent public company. The spin-off leaves the remaining business, renamed Ziff Davis, as a high-growth digital media company. We expect this spin-off to be the catalyst to fully unlocking the value we saw at J2 Global.

Usually, the capital markets efficiently price stocks to reflect fundamental business performance. But when the so-called weighing machine doesn’t work for prolonged periods, private markets will usually act to close the gap between value and price.

There were no new takeover announcements since our last update. But with a strong economy and very low interest rates, the conditions for takeovers are perfect.

Now turning to portfolio positioning.

We continue to focus our efforts on Compounders; currently making up 85% of the portfolio.

As a reminder, Compounders are businesses that offer:
- A durable competitive advantage
- Attractive profit margins
- Double-digit growth potential
- Run by strong management teams

This slide highlights the quality of our businesses. You can see that our companies are growing, on average, at double-digit rates with 25 percent profit margins and conservatively financed balance sheets.

And our portfolio continues to trade at a meaningful discount compared to the broader market.

Despite growth that is nearly double the market average, our companies trade at nearly half the market multiple. We think that’s a good recipe for long-term results.

Our research team continues to unearth compelling new investment opportunities. Since our last update, we have added two new compouders and two new engagement opportunities to the Fund.

So to summarize, the firm is really executing in all areas right now. Our businesses are performing really well while trading at attractive valuations and our idea funnel is full. With that, I’ll turn it over to John to talk about our approach to investing for growth.

John Ewing: Today, I’d like to talk about an unconventional approach to investing for growth that we employ at Ewing Morris. You might even be surprised to hear us talk about growth at all. Most people would probably describe Ewing Morris as value investing firm. But I’ve never really liked that label.

Let me ask you a question...have you ever met an investor who told you they intentionally overpay for low-quality, shrinking businesses run by crooks?

I haven’t either.

We like growth as much as anyone. But we just want to be careful that we don’t get caught up in an exciting story and overpay.
Look at Peloton’s stock price for an example. Last year, thanks to a COVID bump, the stock price soared. But this year, it has given almost all of that back, down 70%.

Low interest rates have driven valuations on many high-growth companies to nosebleed levels. We have intentionally avoided this corner of the market.

Rather, we like to look for growth in overlooked pockets of the market.

To show you what I mean, I’d like to begin by summarizing some of the challenges of conventional growth investing before I explain our less conventional approach.

Let’s take the cannabis sector as a case study.

The problem, as we see it, with growth investing is three-fold:

1. Prize is unknown
2. Winner is unknown
3. And valuations are steep.

This is a really hard problem to solve.

And remember, we aren’t talking about Olympic diving. There are no style points in investing.

Let me expand on each of these three statements.

**CHALLENGE #1: PRIZE UNKNOWN**

- How big will the market be? *Nobody knows.*
- What will the unit economics be? *Nobody knows.*

First – the prize is unknown.

With growth industries, investors need to ask themselves, “How big could the market be?”

But nobody knows. It’s just guessing.

Even if you did know how big the market would be, you still need to answer a second, equally...
difficult question, “What will the economics be?”

Again, nobody knows. It’s just guessing.

**CHALLENGE #1: PRIZE UNKNOWN**

“If a farsighted capitalist had been present at Kitty Hawk, he would have shot Orville down.” - Warren Buffett

For example, the airline industry has experienced tremendous growth since inception a century ago, but has generated anemic returns for investors.

Warren Buffett famously said that, “If a farsighted capitalist had been present at Kitty Hawk, he would have shot Orville down.” The fact that an industry will demonstrate huge growth does not, by itself, guarantee that investors will be rewarded.

**CHALLENGE #2: WINNER UNKNOWN**

The second challenge with conventional growth investing is picking winners.

With most growth industries, the opportunity is apparent to all and lots of companies will assemble at the starting line all pursuing the same prize. There were dozens of car companies in the early 20th century. Only three emerged. Choosing the winning company, in advance, is very difficult in these situations.

**ENDS IN TEARS**

Like I said, investing in growth industries is hard. And in the case of cannabis, Canopy Growth in this example, shareholders have been left disappointed.

**CHALLENGE #3: STEEP VALUATION**

- Expensive valuations
- No margin of safety

The third challenge is valuation.

Even if you can determine the economics and you correctly identify the winner, market enthusiasm around the sector often translates into premium valuations.

Like tightrope walking, this leaves virtually no margin for error.
Now let’s contrast conventional growth investing with one way that Ewing Morris seeks growth. Growth companies in non-growth industries.

Let me explain with the example of Boyd Group.

Boyd Group is one of three large chain operators of automotive collision repair shops in North America.

When we found Boyd in 2012, there was:
1. A known prize
2. Known winner
3. And the stock was trading at a modest valuation

First, let’s talk about the industry.

The collision repair industry had been stagnant, generating about $30 billion per year for several years.

There’s limited growth in the number of vehicles, a little bit of inflation, decline in the accident rate.

Bottom line, stable, no-growth industry.

Within the industry though, we could see good unit economics, especially for larger chains who generated a lot more revenue per location than independent shops.

The second factor, is picking winners. We like situations where the winner is obvious before the fight even starts.
In the case of Boyd, insurance companies were increasingly adopting a business practice called Direct Repair Programs. The details aren’t important, but suffice it to say, the large chains like Boyd were huge beneficiaries of this transition.

On the right, we see that the big chains only had 10% market share. But that was certain to grow as the industry shift continued. Boyd was a clear winner.

You can see here that the industry has barely grown since 2012, less than 2% per year. That’s a no-growth industry.

Despite operating in a no-growth industry, Boyd was able to grow its revenue at better than 20%.

And EBITDA grew even faster.

And that’s how it played out.

You can see that the stock has compounded at 37% over the last decade.

So how did it work out?

You can see that the stock has compounded at 37% over the last decade.

We were involved for four years, capturing the first phase of growth and generating a great IRR.
However, Boyd illustrates another lesson about investing in Compoundingers. Sometimes holding on to the good ones is almost as hard as identifying them.

I think we pretty clearly got the thesis right on Boyd. But we allowed an elevated valuation and significant selling by the CEO scare us off the ride.

We have attempted to learn from this and I think our position management with J2 Global and Gogo demonstrates that we’ve been learning this lesson.

**CURRENT EXAMPLES**

- Parkland
- Consensus
- Tricon

This slide shows a few examples of companies that we currently own that fit the same profile of unconventional growth.

Growth companies in non-growth industries have been a consistent source of investment opportunity for us. And I think this concept is a big part of how we’ve been able to find attractive investment opportunities in an otherwise expensive market.

With that, why don’t I pass control back to Will for Q&A.
Will Jones: Thanks John. We received a few questions in advance of the call today that we wanted to address directly:

How worried are you about inflation?

John Ewing: Everyone likes to worry about the issue of the day.

There’s no doubt that prices are higher. But you have to remember that we pulled the emergency brake on the global economy 18 months ago. There was a big shift from spending on services to spending on goods, labor markets have been disrupted by reduced immigration and factories have had to work at reduced capacity because of COVID. We still think a lot of these kinks will be worked out in the medium term.

We also think it’s worth putting inflation in context. The difference between the yield on a regular a government bond and inflation protected government bond tells you the market’s inflation expectation.

Headline inflation in Canada last month was 5%. And in the US it was 4.5%.

And you can see here that, while expectations of inflation have ticked higher, they’re still less than 3%.

So the bond market is pricing in much lower levels of inflation over the next ten years. As we’ve seen in the past, the bond market usually gets these things right.

We’re paying attention, but we’re not convinced the risk is as extreme as the media is proclaiming.

Darcy Morris: At the end of the day, we think the best protection against inflation is to own good businesses with pricing power. And that’s what we own.
**Will Jones:** Here’s a related question. How is the portfolio being impacted by global supply chain challenges?

**Darcy Morris:** We’re trying to own compounders and these businesses usually generate very high returns on capital. And that often means that these businesses don’t sell “stuff”.

There are a few exceptions. For example, Uni-Select sells auto parts and supply from Asia has been challenging.

But as we look at our holdings, very few of our companies are being impacted in any meaningful way.

**John Ewing:** In some instances, we think short-term supply chain challenges have created great buying opportunities in companies that we have followed for many years.

**Will Jones:** What are the risks that you’re thinking about that aren’t in the headlines today?

**John Ewing:** We think valuations in the investment grade debt market are completely unsustainable.

Yields have come way down over the last 20 years.

At the same time, rate sensitivity has gone up. We’ve also seen leverage ratios increase. In short, there’s a lot of risk here.

Retirees, pension plans and insurance companies all rely heavily on investment grade bonds. A reversal in this market could be really painful for a lot of people.

We would be reluctant to own companies that could be hurt by this dynamic.
Darcy Morris: It seems like a lot of businesses that rely on low-skilled labor are really struggling to attract people. We might see a reversal when borders re-open to immigration, but we’re really wary of companies that rely on a large number of low-skilled labor.

Will Jones: I’ve been hearing from a lot of people that are thinking about investing but are worried that the timing is wrong. Any thoughts?

Darcy Morris: Stock market is at or near all-time highs so that’s a good reason to be cautious.

John Ewing: To build on that, this slide shows relative valuations for some of our largest holdings: Gogo, Ziff Davis and Parkland. These are all good business that should grow at double-digit rates for a long time. You can see how cheap they trade compared to close peers. In addition to these stalwarts, we’ve also been adding new ideas to the portfolio at a healthy pace. In the last quarter, we’ve added two new compounders AND two new engagement ideas. Our idea pipeline has never been fuller.

Will Jones: A final, practical, thought is that we see many investors tranche in. What I mean is someone increasing their investment with us by one million might divide that up and contribute in equal chunks over the course of 3 or 6 months.

But remember, we don’t own the market. Our top ten investments represent 65% of the fund. The performance of these businesses is going to determine our future.

And remember, these are high quality businesses that are growing twice as fast as the market trading for almost half the multiple.

The stocks might not move in a straight line, but we think that’s a really good recipe for long-term results.

You mentioned engagement files. Can you explain how Ewing Morris’ SPV program fits into the rest of the business.
Darcy Morris: We've built a strong expertise in engagement invested. Ewing Morris’ partners have collectively served on 13 public company boards.

Our regular funds, with monthly liquidity, are not the perfect vehicle for this kind of investing. To help us increase scale in a file and to better match liquidity, we have developed the SPV program where we offer our clients the opportunity to co-invest in our engagement ideas.

Clients who choose to participate in the co-investment vehicle get increased exposure to some of our best ideas on a fee-advantaged basis.

Clients who choose NOT to participate benefit too. We will always own these stocks in our funds so clients will have exposure to the idea with or without the SPV. But the SPV gives us more clout to secure board representation and drive change to unlock value in these companies.

Will Jones: Thanks Darcy. That concludes the Q&A section of our call today and now I’ll let you share some closing thoughts.

Darcy Morris: So to summarize, the firm is really executing in all areas right now. Our businesses are performing really well while trading at attractive valuations and our idea funnel is full. Thank you.
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
investorservices@ewingmorris.com
Tel: 416.640.2791

Returns are since inception of the Funds. Inception date of the Opportunities Fund is September 9, 2011. Opportunities Fund returns reflect Class B – Master Series, net of fees and expenses. Prior to February 1, 2021, returns presented were those of Class A – Master Series, net of fees and expenses, which previously bore the same management and performance fees as Class B. Inception date of the Canadian Small Cap Strategy is May 1, 2015. Inception date of the strategy is May 1, 2015. Ewing Morris is represented by the Ewing Morris Small Cap Fund LP. The name of the Fund was changed from the “Ewing Morris Canadian Small Cap Fund LP” to the “Ewing Morris Small Cap Fund LP” effective December 16, 2020. In addition, the investment strategy of the Fund was changed to remove the restriction that the assets of the Fund be invested primarily in Canadian securities. As a result of these changes, the portfolio of the Fund may differ significantly from the period prior to December 16, 2020, and performance from December 16, 2020 onwards may vary significantly from previous performance. Ewing Morris performance is based on returns for the Ewing Morris Small Cap Fund LP. Inception date of the strategy is May 1, 2015. As of February 1, 2021 returns are based on Class A, net of fees and expenses. Class A units bear management fees of 0.75% per annum, as well as performance fees, as applicable. From November 1, 2019 to January 31, 2021, returns presented were those of Class O of the Fund, and were inclusive of Fund expenses but gross of management and performance fees. 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 Small Cap Fund LP and were gross of fees and expenses. On October 31, 2019, the managed account assets were transferred into the Ewing Morris Small Cap Fund LP. While the Fund’s overall investment objective remains the same, its past performance is not indicative of future performance, and the inclusion of management and performance fees in the calculation would serve to lower historical results. 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 and expenses. Inception date of the Broadview Dark Horse Fund is April 3, 2009. Dark Horse returns reflect Class A – Master Series, net of fees and expenses. Inception date of the Partners Fund is March 1, 2019. Partners Fund returns reflect Class B – Master Series, net of fees and expenses. 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 October 31, 2021.