EWING MORRIS
INVESTMENT PARTNERS LTD.

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July 4, 2019

Dear Friends and Partners,

Investment Update

Year	**Ewing Morris Opportunities LP Class A[1]**	S&P 500 Index* with Dividends Included[2]	S&P/TSX Composite Index* with Dividends Included
2019 (YTD)	**5.3%**	17.4%	16.2%
Since Inception (Annualized)	**9.3%**	11.9%	6.8%
	Ewing Morris Flexible Fixed Income LP Class P[3]	iShares U.S. High Yield Bond Index ETF** (CAD-Hedged)[4]	iShares Canadian Corporate Bond Index ETF**
2019 (YTD)	**3.5%**	9.1%	7.0%
Since Inception (Annualized)	**8.7%**	7.9%	4.0%

Investment Commentary

As you may have noticed, stock markets have been extremely volatile in 2019. The S&P 500 Index declined more than 6% in May before rebounding more than 5% in June. Monthly moves of this size (>5%) typically occur once or twice per year. Yet we witnessed five of them this past school year! These are unusual times.

Thus far in 2019, our portfolios have underperformed their benchmarks while delivering respectable results in absolute terms. Our investors regularly ask how we invest in this kind of market. Here's what we *won't* do:

- ***We won't chase expensive markets.*** Low (and falling) interest rates have led many investors to bid up the prices on high-quality assets. If rates rise, many asset owners will be disappointed. The wish list of businesses that we would love to own continue to trade at high valuations.

- ***We won't lament the lack of opportunity.*** It is easy to complain about expensive markets. But the opportunity cost of holding cash is high. Enterprising investors not constrained by excessive size or highly restrictive mandates should always be able to find opportunity.

[1] Results are estimates as of June 30, 2019 and are net of all fees and expenses. Fund inception was September 9th, 2011.
[2] Benchmark sources: S&P Capital IQ.
[3] Results are estimates as of June 30, 2019 and are net of all fees and expenses. Fund inception was February 1st, 2016.
[4] Note: Low-cost, index tracking funds; representative of an individual's opportunity cost in fixed income.

What *are* we doing?

One area where we have rolled up our sleeves to unearth value is in our engagement investing. These are situations where we work closely with the management of our portfolio companies to influence corporate outcomes.

We recently increased our ownership position in Strad Inc., a Calgary-based energy services and equipment rental business, to ~15.5%, and Lee Matheson joined the company's board. Strad's business is healthy but energy-related stocks are deeply out of favor. We look forward to working with Strad to help realize value for all shareholders. This letter is accompanied by some updated Conflicts of Interest Disclosure relating to our board positions.

We have also increased our investments in convertible preferred shares. These investments possess balance sheet seniority and tax-advantaged income characteristics while retaining equity-like upside. In late March, we completed an investment in Centric Health, a Toronto-based healthcare company, via 9% convertible preferred shares with John Ewing joining the board. We are excited to partner with Centric's CEO, David Murphy, in pursuit of the company's vision to be the leading provider of pharmacy services to Canadian seniors.

In our experience, the success of these types of investments is usually independent of movements in broader equity markets. Rather, the outcome is tightly linked with the performance of the specific company, helping to insulate our results from the markets at large.

<u>Flexible Fixed Income Fund LP Commentary</u>

In our fixed income portfolio, we remain focused on shorter duration Structural Value situations, where investment outcomes are defined by the company's contractual performance over the next 12-24 months. A good example is Precision Drilling's 6.5% Senior Notes due in December 2021. We are familiar with the company, Canada's largest drill-rig operator, having invested in (and exited) these bonds in 2016 under a different investment thesis. In January 2019, Precision Drilling announced its free cash flow expectations and debt reduction guidance for 2019, highlighting the company's focus on long-term debt reduction. We swiftly purchased Precision's 2021 notes at C$97. Between the company's cash balance, free cash flow production and proceeds from potential asset sales, it appeared that the 2021 bonds were likely to be retired in cash by the end of this year. Under this base case expectation, our purchase price at C$97 would produce an annualized return on investment of greater than 10%, a very attractive risk-adjusted result. If we were wrong, and the bond was not retired early due to difficult market or economic conditions, we saw that Precision had ample flexibility to mature the principal amount via an untapped credit facility or through secured debt issuance. It also seemed unlikely that a small (US$166 million) obligation would topple a C$2.5 billion enterprise.

Since our purchase, Precision has retired about one third of the 2021s. The bonds trade firmly at par today. Outcomes like this highlight that, although the market can become expensive (as is the case today), we can still uncover situations that can provide reasonable returns with very

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limited potential for loss. One third of our portfolio is represented by investments where Structural Value is the primary component of the investment thesis.

Investment Commentary – High Quality Industrial Businesses

An emerging opportunity is high-quality industrial businesses. A great industrial business usually possesses the following characteristics:

- ***Sells a critical component.*** Customers tend to be insensitive to price when purchasing critical components. Examples include a valve in a nuclear plant or fuel nozzle in a jet engine.

- ***Engineering-led sales.*** Sales engineers help embed their products into customers' final designs. Switching to competitors becomes very difficult.

- ***Leading market share.*** Customers are unwilling to trust new suppliers with critical components, and without customers, new competitors lack opportunities to improve their own products. Consequently, market share usually changes very slowly, if at all.

These businesses can be cyclical in the short-term, but their competitive positions are often very enduring. Current fears about trade wars and a potential recession are creating opportunities for us to invest in some high-quality companies at increasingly attractive valuations.

In summary, we feel confident that our portfolios are well positioned to absorb any continued volatility and deliver solid absolute returns through the balance of the year. As a reminder, if you are seeking equity market exposure but feeling nervous about investing in a period of heightened volatility, you may want to consider the Ewing Morris Partners Fund, which is a balanced offering that combines our equity and fixed income offerings in a single fund.

Miscellaneous

We would like to formally introduce Oni Mahbub who joined us in the Operations group in May 2019. Oni brings an enthusiastic personality and several years of industry experience to Ewing Morris. Oni will succeed Perry Schultz who has decided to pursue an entrepreneurial dream outside the investment field.

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

John Ewing
Co-Founder

Darcy Morris

Darcy Morris
Co-Founder

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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 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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