EWING MORRIS & CO. INVESTMENT PARTNERS LTD.
CLIENT CONFERENCE CALL
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Will Jones: Good afternoon folks, Will Jones here. I will be moderating today's update call.

The agenda of today's call will include an update on our equity strategies, a review of portfolio positioning and a discussion about our investment approach in turbulent markets. We received a handful 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: Thank you Will and thank you everyone for joining the call today.

Like every year, 2021 was filled with surprises. It began with a riot at the US capital and ended with a disruptive new variant of COVID-19. Despite these challenges, our steadfast focus on quality companies combined with a cautious eye for valuations helped deliver results for our clients.

In May of last year, we noted that the companies in our equity portfolios were growing at more than twice as fast as the S&P500 yet trading at a valuation that was 45% lower. This translated into investment success and, as we’ll show today, these characteristics are still in place to ensure long-term sustainable investment results at Ewing Morris.

In the past year, we expanded our investment offerings into real estate and co-investment special purpose vehicles. Our co-invest vehicles now make up roughly $60 million of long-term committed capital.
Our core funds reported the strongest single-year results in our 10-year history, both on an absolute and relative basis, for 2021.

**STRENGTHENING THE TEAM**

Amy Freedman
- Partner and Head of Engagement Fund Investing
- Previously CEO of Kingsdale Advisors
- 15 years in capital markets
- Director on Park Lawn Corporation & Mandalay Resources Corporation

We have also continued to reinvest in the firm with the recruitment of senior personnel and a priority on operational infrastructure. I’m very excited to announce the recent addition to our team of Amy Freedman. Prior to Ewing Morris, Amy was the CEO of Kingsdale, the leading governance and shareholder advisory firm in Canada. We have worked on both sides of the table with Amy and her addition really strengthens our capabilities in engagement investing and client service.

As we enter February of 2022, we face the threat of rising inflation, and the uncertainty of how quickly central banks will raise rates. Meanwhile, there is the threat of war in Ukraine and uneasiness in the Chinese real estate market. Combined, these forces could send the economy back into recession while investors flee to safe haven assets like treasuries and values for risk assets like stocks could plunge.

In times like this, it’s important to remember that stocks sometimes rise in a way that is disconnected from underlying fundamentals and vice versa, they often overcorrect in a way unrelated to underlying business. Since founding the firm in 2011, we have lived through several market cycles and while they can be uncomfortable each time, our firm, and our clients, have always emerged stronger.

Over the next year, the market will undoubtedly present challenges but also opportunities that we are very well positioned to capitalize upon. The firm has never been in a stronger position and our underlying investments are performing very well.
So, with that preamble, let’s take a closer look at what is happening in the markets and within our equity portfolio.

January was a tough month for stocks as investors worried about inflation, rising rates and the implications for the markets.

At Ewing Morris, our equity strategies were resilient and protected capital much better than the small cap index.

It was an even tougher month for small caps which were down more than twice as much as large caps.

And it was a really tough month for technology.

I received a lot of calls over the past years asking about stocks like Zoom and Peloton, but these stocks are back trading at pre-pandemic levels.
Even great businesses like Lightspeed and Shopify have been cut in half in this correction.

And the poster child of the recent boom, ARK Financial run by Cathie Woods, has gone from 500% outperformance to suddenly underperforming the Nasdaq.

I believe a key differentiator for Ewing Morris is our disciplined approach to fundamental business analysis. We look closely at metrics like cash flow, asset value and valuation. And approach buying shares in companies from the perspective of a private buyer. We ask ourselves would we purchase this entire business at the current market price with existing management. And when the answer is “yes”, we often can buy fractions of companies well below what we would have to pay in a negotiated transaction or an auction process.

I am happy to report that we were never distracted by this speculative trade and some of our clients have commended us for not getting caught up the frenzy.

The market trade-off could create opportunities for our group and a reset in valuations can be healthy. It seems like more market participants are now realizing that cash flow still matters and that plays to our strength.

Now I’ll turn it over to John.

John Ewing: Thanks Darcy

I think the perception is that 2021 was a really good year for all asset classes. And in many ways, it was.

But the reality is that, after the recent pullback, small caps have given back almost all their 2021 returns.
We ran the numbers and saw that, in the last 30 years, there have been nine different times when small caps corrected by at least 20%.

Here’s what happened afterwards if you bought small caps:

1. You make money almost every time; and
2. You almost always outperform large caps

There’s no guarantee that history will repeat itself but investing in small caps after a correction usually works.

So, the outlook for small cap is good. But when I look at our portfolio, I get even more excited. We own great businesses that are growing at twice as fast as the S&P 500.

At the same time, our companies are trading at nearly half the valuation.

We continue to think that double the growth at half the valuation is a good recipe for long-term results and we think this is a great time to own these small caps.

Now let’s review the current portfolio strategy.
The strategy is unchanged:

1. Focus on Compounders
2. Selectively target opportunities for shareholder engagement
3. Watch out for rakes
4. Take advantage of market volatility

As a reminder, a Compounder is a business that has...

- A durable competitive advantage
- Attractive profit margins
- Double-digit growth potential
- Strong management team

And these continue to make up the bulk of our portfolio.

The core strategy remains to focus on compounders.

Let’s take Gogo as an example.

Gogo has a near-monopoly providing internet on private jets in North America. The business has fantastic economics and is consistently growing at double-digit rates. And the stock trades at 12.5x cash earnings.

It’s very unusual to find such a good business trading at such a low price. These are the kinds of compounders that we own.
Most of the time, when a value investor has an exciting idea, it fits one of two profiles.

The first, is what we call time arbitrage. This is a situation where a good business is facing a short-term, fixable issue. And if you just have enough patience, you will be rewarded.

But that’s not the case at Gogo. The business is firing on all cylinders.

The other profile is what we call, “Like it at $20, love it at $10.” This is where an investor buys a stock, only to see its price drop, creating an opportunity to double-down.

But that’s not the case at Gogo either. We first invested in late 2020 and the stock price is up 30% since the beginning of last year.

The business is working and the stock is working too. But there’s still a lot of meat left on this bone.

And Gogo isn’t alone.

We showed you a minute ago that the whole portfolio looks like Gogo...double-digit growers trading at low-teens multiples.

In addition to Compounds, we continue to look for opportunities where we can deploy our engagement playbook.

Cedar Realty announced a Strategic Review in September.

We have initiated three new files since late last year and we’ll have more to share about these in the future.
We’re also trying to avoid problems before they happen. We call it “watch out for rakes”.

**WATCH OUT FOR RAKES**

- Businesses selling “stuff”
- Labor intensity

Our biggest concerns right now are supply chains and labor costs.

We’re generally trying to avoid businesses that sell “stuff”. Supply chains will eventually unsnarl, but we think the wait could be longer than many expect and so we’re cautious around companies that sell physical goods.

That doesn’t mean these companies are off-limits altogether. But what it does mean is that we need a big margin of safety and really want to see a washed-out stock price before we invest in these kinds of companies, like we see at Stoneridge.

The other area that we are cautious about is companies that rely on a lot of people. COVID has had a big impact on labor markets with a lot of people dropping out of the workforce entirely. We’re cautious around companies that depend on a lot of people to operate.

Finally, we are also going to use market volatility to our advantage.

> "It is largely the fluctuations which throw up bargains and the uncertainty due to the fluctuations which prevents other people from taking advantage of them"  
> - John Maynard Keynes

John Maynard Keynes is more famous as an economist but he was also a tremendously successful investor. I think his comments about volatility are insightful.

- He observed that fluctuations cause bargains
- But fear of fluctuations prevents most people from acting on bargain prices

We have been heeding Keynes’ advice. We trimmed positions in some of our best performing investments in order to increase our investment in holdings that sold off indiscriminately.
The history of our investment in Softchoice provides a perfect demonstration.

TAKING ADVANTAGE OF VOLATILITY

Softchoice is a value-added reseller of software and hardware to corporate customers. It’s a good business with sticky customer relationships, good margins and good long-term growth from increased IT spending on areas like cybersecurity and cloud computing.

Then, the stock came all the way back down to our initial price allowing us to buy back all the stock we previously sold, plus some more.

Then we saw Microsoft, their largest partner, report strong earnings and the stock has already begun to recover, up 10% since we added.

This is how we’re taking advantage of volatility in the market.

PORTFOLIO STRATEGY

1. Focus on Compounds
2. Selective Engagement
3. Watch out for rakes
4. Take advantage of volatility

To summarize, our portfolio strategy remains consistent:

1. Focus on Compounds
2. Selective Engagement opportunities
3. Watch out for rakes
4. Take advantage of volatility

And that strategy has produced a portfolio with an exciting combination of quality and valuation.

Before we conclude, we’ll answer the questions we received.

We first purchased the stock in the middle of last year at $20 per share.

Following a quick run-up, we sold some stock in the high $20s and sold more in the mid-$30s. A few months later, insiders agreed with our assessment of valuation and sold some of their own stock just below $30.
Will Jones: Thanks John. We received a few questions in advance of the call today that we wanted to address directly:

If there is a further sell-off coming in the markets, how is Ewing Morris positioned to both protect and capitalize?

Darcy Morris: We don’t have a crystal ball but continued volatility seems likely. But we take comfort in the volume of the negative headlines. While these are all credible risks it tends to be the unknown or ignored risks that cause extreme broad market sell offs. In 2007, the collective market was not pricing any risk of impending financial crises and in early 2020 the market as whole completely underestimated the COVID virus. But you should remember that we have already seen a big sell-off in small caps. Things could get worse and we don’t know where the market will be three months from now. But three years from now, owning this portfolio, I think we’re all going to be really happy.

Will Jones: How is Ewing Morris thinking about US/Canadian currency exposure today?

John Ewing: When filling up your car recently, preferably at one of Parkland’s On The Run, Chevron, Pioneer or Ultramar locations, you have probably noticed that the price of oil is up a lot compared to a year ago.

If you’ve been fortunate to escape at least some of Canada’s winter, you may also have noticed that the value of the Canadian dollar has not changed very much.

This is unusual. Oil is our largest export and the price of oil usually moves in tandem with the loonie.

With inflation running where it is, it seems reasonable to expect the price of oil to trade at, or even above, current levels in the short-to-medium term.

To the extent that the Canadian dollar eventually moves higher, to reflect current oil prices, unhedged owners of foreign assets, like U.S. stocks, will feel some pain.

But our portfolios hedge US currency exposure. This is a risk you are not taking with Ewing Morris.
Will Jones: Is there a regime change in the market or is it opportunity to buy stocks like Shopify?

Darcy Morris: Everyone is asking themselves that question – is this just a correction or are we seeing a regime change. For many years, the market was more interested in “stories” than “cash flow”.

That was a result of things like low interest rates and inflation. But there are signs that is finally changing.

Look at Shopify. By all accounts, this is a tremendous business.

After falling by 50% the stock still trades for almost 200x EBITDA.

That’s still really expensive.

And valuations matter.

After peaking in late 1999, it took Amazon ten years to fully recover.

Microsoft was even longer, seventeen years for its stock to fully recover.

When the market decides to care about cash flow and valuation you can see prolonged shifts in markets.

These were and are wonderful companies. But 17 years is a long time to wait for a recovery.

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

Darcy Morris: In closing, I want to reiterate that the current market landscape is going to present challenges but also provide opportunities that we are well prepared to capitalize on.

Our team and culture continue to set us apart, characterized by our discipline, dedication to our clients and our commitment to protect capital.
Over time, investment results will drive the growth of our firm. Going forward, we feel confident we can achieve similar if not better results that we previously have.

I thank you again for making the time to join us today and if you have any additional questions, please don’t hesitate to contact myself, John or Will directly.

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.

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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 and expenses. 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. Unless stated otherwise, returns are as of January 31, 2022.