Inflection Commentary

INFLECTION
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Inflection Performance: June 2017

Are We There Yet?

It's summer, and all across the country minivans and station wagons echo with tiny sweet voices asking if we've finally arrived at our destination. Here too at ISOF tiny sweet voices are asking if the improvements we implemented over the last 18 months are benefiting the portfolio, and we are happy to answer: YES!

Below you can see ISOF's metrics from Inception (October 2010) through June of 2016 compared to our metrics over the last 12 months ('TTM').*

ISOF Series A	Inception to June '16	TTM	Change	% Change
Annualized Rate of Return	3.36%	6.30%	2.94%	88%
Annualized Standard Deviation	5.85%	3.85%	-2.00%	-34%
Sharpe Ratio	0.57	1.64	1.07	188%
Beta to TSX	0.37	0.24	-0.13	-35%
Correlation to TSX	0.61	0.32	-0.29	-48%

As you can see in the last column, % Change, we have seen meaningful improvement across all of the important metrics: Increased return; lower volatility; and lower correlation to the TSX Index. Taken together, these metrics show that we are both increasing our risk-adjusted returns and our value as a diversifier to a traditional portfolio of stocks, bonds, and real-estate.

While a return of 6.30% over the past twelve months is below our target of 8-10% (net) annualized over a full business cycle, it is within a normal range of outcomes and, we believe, likely to be improve going forward. Over the past 6 months, 2 of our longer wavelength (higher volatility) strategies have endured large drawdowns that have impacted our performance. If these 2 strategies had been flat, ISOF would have been up over 10% but, as we've explained in previous commentaries, clumpy returns are sometimes the cost of higher performing strategies. We expect both of these strategies to return to their historical averages by providing strong returns in the not too distant future.

Meanwhile, we are actively researching a handful of new strategies that are intended to only improve our metrics further and enhance our ability to improve the risk-adjusted returns of our investors' portfolios by providing a robust stream of uncorrelated returns.

* The performance numbers included in this letter are estimates only. The performance of your investment may vary for multiple reasons. Please rely on your monthly statements (from our administrator SGGG) for performance relating to your individual accounts.

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Looking forward, we believe that now is a better than average time to be allocating to low-duration hedged strategies like ISOF that are not reliant on the continued rise of equity markets or falling interest rates. We are 8 years into the business cycle with asset valuations near all-time highs, which means prospective returns (i.e. what can be reasonably expected for the next 7-10 years) are just about the lowest they've ever been. And this is true across the vast majority of traditional asset classes. Investors who are overly exposed to Canadian equities, may be particularly at risk due to high levels of debt in the Canadian economy, the economy's over-reliance on the real estate and construction sectors, and a lack of control over global demand for our natural resources.

Contribution

ISOF was up 0.34% in June, bringing our return YTD to -0.57%, and our trailing 12-month performance ('TTM') to 6.30%. Our best performer was FJ (Regional Banking), up 3.28% and providing 0.47% net to the portfolio. Our largest detractor was AHL (Macro) down -1.13% and detracting -0.21% from the portfolio.

Year to date our arbitrage and relative value managers have returned 7.5% annualized versus 12% annualized over the past 36 months. This slowdown in performance is primarily attributable to the historically low levels of volatility present in the market: May 2017 set a record for the VIX (a proxy for market vol) with 20 days closing below 11, the most days below 11 in a single month over the entire history of the VIX. June came in second, with 18. By way of comparison, the VIX went 7 years without a reading below 11 from 2007-2014, while there have been 51 days below 11 in 2017 so far.

Markets don't usually persist at the edge of a spectrum for long, and one would be hard pressed to find the words 'benign' and 'persist' together in the history books of finance. But for as long as they remain together, we are quite satisfied to have a portfolio designed to collect 9% annualized with nearly all of the risk to the upside!

	# of Managers	Ending Weight	June	YTD
Arbitrage	5	31.08%	0.14%	1.08%
Relative Value	6	39.23%	0.10%	1.61%
Macro	3	20.83%	0.26%	-1.26%
Volatility	2	8.62%	-0.15%	-1.82%
CASH	NA	0.24%	0.00%	-0.15%

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Portfolio Changes

No changes were made to the portfolio in June.

Sincerely,

The Inflection Team

The Inflection Strategic Opportunities Fund (ISOF) invests in a broad array of carefully selected hedge fund strategies in order to capitalize on dislocations and market opportunities. The Fund has a global mandate and focuses primarily on the Americas, Europe and Asia, providing access to the expertise of hedge fund managers in identifying what we believe are exceptional investment opportunities throughout the world. Some taxable investors may find that the Fund's option structure has significant tax benefits. Please refer to the attached Factsheet for additional information.

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Disclosure

ISOF performance presented are USD net returns after investment management and performance fees and is not an estimate of any specific investor's actual performance, which may be materially different from such performance depending on numerous factors. ISOF returns represent historical returns adjusted for the June 2015 performance fee structure change to the current fee structure. Information presented is believed to be correct and accurate at the time of production but may change due to circumstances beyond our control. Returns may be amended after these numbers have been reported due to repricing adjustments or receipt of more recent data, among other things, and will be reflected in the most recent document. Comparative returns selected are for informational purposes only and may or may not accurately represent the composition or potential performance of Inflection Strategic Opportunities Fund and may not be useful for comparison purposes. The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager hedge funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollars and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds. The S&P/TSX Composite Index (Net TR) is the Net Total Return version of the S&P/TSX Composite Index and is presented in Canadian Dollars. The Net Total Return Index Value is based on the aggregate, float quoted market value of the index constituents (Stock Price Index Value) plus their paid net dividends/distributions after applying a withholding tax at the national level. The Barclays Global Aggregate Bond Index is a market capitalization-weighted index denominated in US Dollars representing the universe of investment grade bonds available for purchase in the United States, securities underlying the index include Treasuries, Agencies, Mortgages, and Corporate Bonds. ISOF is an exempt market fund available to Canadian resident accredited investors in British Columbia, Alberta, Ontario, and Quebec and to a limited investor base in certain provinces under the Minimum Amount exemption. Investing involves risk. Please seek professional advice before making any investment. This is not an offer to purchase or sell securities. It is for information only. Please refer to the Confidential Information Memorandum for more detailed information