

German for 'Don't Fight The Fed!'

Since 2009 we've all heard the snappy refrain 'Don't Fight The Fed!' over and over. It refers to the successful returns that money managers have produced by following US monetary policy as the Federal Reserve Bank in the US aimed their giant money hose at sequential asset classes which, not surprisingly, responded by trading dramatically upwards.

Therefore, we all should have taken careful notice when Janet Yellen, the Chair of the Fed, warned on May 6th that "equity-market valuations at this point generally are quite high... [and] there are potential dangers there." We believe the Fed is signaling as strongly as it can that the tide is turning and that there is a serious risk that when the Fed finally spots its opportunity to raise rates, stocks will likely slow their unprecedented march upward. Indeed, some would see Yellen's warning as a rather strong sell signal, as the Fed has proven it has the power to make its predictions come true.

But as even more famous the saying goes, 'When one door closes, another opens'. Just as the Fed has been taking the initial steps toward tightening credit, their European counterpart, the ECB, has embarked on a massive campaign of loosening credit. It is therefore no surprise to us that the EURO STOXX 50 has been on a tear, up 14.92% to the end of April.

The Inflection Strategic Opportunities Fund ('ISOF') has benefitted well from this echo of the earlier dynamic, characteristically sourcing veteran long/short managers who we believed would best be able to exploit the opportunity long before we were ready to allocate. Though our primary manager in the strategy was negative for the month of April, it has been one of ISOF's largest contributors year to date, adding 2.18% to our year to date net total of 5.56%. The manager was a small niche player when we first found them in 2012 but now, 3 years and one Barron's profile later, it is a category leader.

That fund is also reflective of our usual preference for North American-based managers, even when managing foreign assets, because of what we believe are the superior governance practices and more disciplined investment practices of US-based managers post-2008, and because of their skill at hedging out unwanted risks, in this case the US-Euro exchange rate.

In April ISOF produced a net monthly US dollar return of -0.24% (-4.99% in Canadian dollar terms), bringing our year to date total to 5.56% (9.77% in Canadian dollar terms). By comparison, the HFN Fund of Funds Multi-Strategy Index, our closest US dollar benchmark, returned 0.25% for April (2.78% YTD) and the S&P TSX Index returned 2.93% (5.87% YTD). The Scotiabank Canadian Hedge Fund (Equal Weighted) Index lost -0.40% for the month and is up 3.43% for the year.

Inflection Performance: April 2015

Since inception in October 2010 ISOF has produced a net US dollar return of 41.01% (65.32% in Canadian dollar terms), outperforming the Scotiabank Canadian Hedge Fund Index by 55.68%, the TSX Index by 23.69% (on a Canadian Dollar returns basis), and the HFN Fund of Funds Multi-Strategy Index by 23.05% (on a US Dollar returns basis). Over that period ISOF maintained a Sharpe ratio of 1.31 (1.25 in Canadian dollar terms), and a correlation to the S&P TSX Index of 0.65 (-0.07 in Canadian dollar terms).

The Europeans are just warming up their giant money hose. The next several months should be very rewarding for those, like ISOF, who have been carefully watching the Fed, and equally carefully watching the ECB.

Sincerely,

The Inflection Team

The Inflection Strategic Opportunities Fund (ISOF) invests in a broad array of carefully selected and analyzed hedge funds 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.

Inflection Management Inc.
1981 West 19th Avenue
Vancouver, British Columbia
Canada V6J 2P2

Tel: 604.730.9147 Fax: 604.730.9149
www.inflectionmanagement.com

Disclaimers

ISOF performance numbers presented are blended net returns after investment management and performance fees which vary by class of unit. 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 we have reported these numbers. These amendments may be due to repricing adjustments or receipt of more accurate data, among other things, and are reflected in the next document. Benchmarks selected are for informational purposes only and may or may not accurately represent the composition or potential performance of Inflection Strategic Opportunities Fund. All comparative returns are provided for informational purposes only and may or may not be useful for performance comparison purposes. USD returns source: The HedgefundNet Fund of Fund Multi-Strategy (HFN FOF Multi Strategy) index, a USD denominated index comprised of funds of hedge funds. CAD returns source: ISOF USD returns converted into CAD returns based on the last monthly closing USD/CAD exchange rate as posted on the Bank of Canada website. The S&P TSX Total Return index measures the total return of a basket of stocks traded on the TSX index in Canada. The ScotiaMcLeod Equal Weighted Hedge Fund Index is comprised of Canadian-based hedge funds whose returns are equally weighted within the index. Inflection Strategic Opportunities Fund is an exempt market fund available to Canadian resident accredited investors in British Columbia, Alberta, Saskatchewan, 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 detailed information.