Inflection Commentary

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Inflection Performance: February 2015

The front page of the March 28th, 2015 Globe & Mail business section carried the headline "Time to reconsider overexposure to domestic stocks." Although we believe the headline was at least seven months overdue, we certainly agree that there is considerable risk of the weakness of the Canadian energy sector infecting the rest of the domestic stock market. Happily, some of this risk can be mitigated by adding less-correlated exposures to markets and assets unlikely to be affected by our domestic economic conditions. The world continues to offer compelling opportunities and the Inflection Strategic Opportunities Fund ('ISOF') produced a strong net monthly US dollar return of 3.05% for February.

Global markets were mostly positive during the month with investors interpreting US economic data as being comparatively strong and looking forward to the European Central Bank's very large quantitative easing program having a similar effect on risk assets like stocks as the Federal Reserve's program did a few years ago. Even oil, the drama queen of the commodity markets, found temporary support at the $50 per barrel level, and Greece, the drama queen of the EU, successfully 'kicked the can down the road' a few months.

ISOF benefitted from many of February's macro-economic events, with 14 of our 18 managers contributing significantly. The top performers in the portfolio were our long/short equity managers followed by our distressed and corporate bond managers.

Merger and Acquisition ('M&A') activity remained high and continued the recent pattern of rewarding both the target company and the acquirer with a rising stock price. The more usual pattern is for the target company's stock to go up and the acquirer's stock to go down, but the market is currently feeling generous, rewarding acquirers for perceived good decision-making and prudent use of cash reserves.

M&A Examples for the month include Expedia's acquisition of Orbitz and Valeant's deal for Salix Pharmaceutical. Our M&A managers are notably benefitting from increased volatility in stock markets and the sheer volume of deals, both of which tend to widen arbitrage spreads and therefore produce better profits. We believe that rising optimism will continue to support a very active M&A calendar.

Europe too remains a highly inefficient market with many exciting investment opportunities once you hedge out the volatile euro. Notable contributors for February were Altice, Numericable, Aalberts, TKH Group and Arcadis. On the short side, some of our managers also benefited from the weakening of companies like Fagron and Vopak.
While February's portfolio contributors were quite broad-based, we did have minor losses from one of our macro managers, and our hedges detracted slightly, as is perhaps to be expected in a month when everything else goes right.

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ISOF's February returns bring our year to date total to 4.26% (12.37% in Canadian dollar terms). By comparison, the HFN Fund of Funds-Multi-Strategy Index, our closest US dollar benchmark, returned 1.66% for February (1.75% YTD) and the S&P TSX TR Index returned 3.98% (4.55% YTD). The Scotiabank Canadian Hedge Fund (Equal Weighted) Index gained 1.85% for the month and is up 3.77% for the year.

Since inception in October 2010 ISOF has produced a net US dollar return of 39.27% (69.22% in Canadian dollar terms), outperforming the Scotiabank Canadian Hedge Fund Index by 59.21%, the TSX TR Index by 29.35% (on a Canadian Dollar returns basis), and the HFN Fund of Funds-Multi-Strategy Index by 22.49% (on a US Dollar returns basis). Over that period ISOF maintained a Sharpe ratio of 1.29 (1.44 in Canadian dollar terms), and a correlation to the S&P TSX TR Index of 0.68 (-0.03 in Canadian dollar terms).

ISOF's robust returns since September in themes such as European equities and energy infrastructure proves once again that beyond diversification, investing in areas far from the 'overexposure' of most Canadian investors to the domestic market can be extremely profitable and potentially reduce the risk profile of an investor's portfolio.

Looking forward we see significant opportunity in the divergence in policy between the ECB and the Fed's loosening/tightening credit policies. We believe the lower Euro, the rising dollar, and the fluctuating price of oil will also be significant contributors, as will distressed opportunities in… you guessed it: Canada.

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.

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