

## Inflection Performance: January 2015

Anyone hoping for a quiet start to the trading year in 2015 was likely disappointed. January saw world markets shaken by multiple events: Switzerland's abandonment of its artificial currency peg; the beginning of active quantitative easing in Europe; and the victory of a debt-unfriendly left-wing party in Greece. The US dollar continued to rise against nearly all other currencies as US growth continued to look strong versus most other regions and the Fed prepared to eventually, maybe, if everyone's OK with it, begin to raise interest rates. Commodities finished broadly lower (particularly energy), as slowing demand continued to be a concern.

With so much uncertainty characterizing markets at home and abroad, January once again showed the benefits of having a carefully selected stable of diversified alternative managers. Inflection Strategic Opportunity Fund ('ISOF') that benefit from volatility did particularly well during the month, followed by managers who specialize in either European equities or credit. The former gained from the weak euro, and the latter from the beginning of quantitative easing, with some overlap between the two. In European equities, some of the top contributors on the long side were Altice, Aalberts, Arcadis, and Elringklinger. Our managers' European shorts also performed well, particularly Royal Dutch, Swatch and Hunting, which weakened appreciably.

Our managers who deal in mergers and acquisitions contributed appreciably in January as well, as they continued to benefit from the high level of deal activity. Examples for the month include Merck's acquisition of Cubist, Endopharma's deal with Auxilium, and Albertson's acquisition of Safeway.

Though not a big contributor in January, our energy infrastructure theme, discussed extensively in our November 2014 commentary was, significantly, positive despite the seismic changes taking place in the energy industry. ISOF's macro exposure continues to be a bit of a small thorn in our side and our managers who specialize in technology also had a tough month.

In marked contrast to markets at home and abroad, the ISOF began 2015 smoothly with a net monthly US dollar return of 1.17% (10.85% in Canadian dollar terms) for January. By comparison, the HFN Fund of Funds-Multi-Strategy Index, our closest US dollar benchmark, returned 0.12% for the month and the S&P TSX Index returned 0.28%. The Scotiabank Canadian Hedge Fund (Equal Weighted) Index gained 1.89% for January.

Since inception in October 2010 ISOF has produced a net US dollar return of 35.14% (66.94% in Canadian dollar terms), outperforming the Scotiabank Canadian Hedge Fund Index by 58.93% and the TSX Index by 32.43% (on a Canadian Dollar returns basis), and the HFN Fund of Funds-Multi-Strategy Index by 20.23% (on a US Dollar returns basis). Over that period ISOF maintained a Sharpe ratio of 1.20 (1.42 in Canadian dollar terms), and a correlation to the S&P TSX Index of 0.67 (-0.03 in Canadian dollar terms).

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We continue to be excited by the opportunities that 2015 is presenting us with. In particular we suspect that the ECB's institution of quantitative easing will produce opportunities very similar to those our managers exploited so successfully in the US a few years back, when the Fed was actively easing, and that the new dynamic of the US dollar trouncing all competitors (as evidenced in ISOF's January Canadian dollar return) will develop into the kind of major disruptive event on which our managers tend to thrive.

Inflection In the News

In March's Canadian Business magazine reporter Bryan Borzykowski wrote an article on Ari Shiff and the Inflection Strategic Opportunities Fund titled "Born-Again Hedgeie". To read the article, please click on the link below.

(Please note the following errors in the article: ISOF's Canadian dollar Correlation to the S&P/TSX Composite is -0.03 with a Beta of -0.02).

<http://www.canadianbusiness.com/investing/ari-shiff-inflection-management/>

Also in March, ISOF was added to the Royal Bank of Canada DS platform. RBC clients can now invest in ISOF by contacting their RBC wealth advisor directly.

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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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. For USD returns, we have selected the HedgefundNet Fund of Fund Multi-Strategy (HFN FOF Multi Strategy) index which is a USD denominated index comprised of funds of hedge funds. To the extent that funds contained within this index have different investment criteria and holdings, the index may or may not be useful for performance comparison purposes. For CAD returns we have presented 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. We have also provided for information purposes only the returns of the S&P TSX Total Return index (S&P TSX TR) and the ScotiaMcLeod Equal Weighted Hedge Fund Index (SCM - Equal Weight). The S&P TSX Total Return index measures the total return of a basket of stocks traded on the TSX index in Canada and may or may not have any comparability to ISOF CAD returns. The ScotiaMcLeod Equal Weighted Hedge Fund Index is comprised of Canadian based hedge funds whose returns are equally weighted within the index and may or may not have any comparability to ISOF CAD returns. 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.