

Inflection Performance: July 2015

The Upside of Sideways

Do investors even remember July after the turbulence of August?

Well we remember July fondly because, like June before it, the gyrations of markets in July were not only good for our managers but also signaled what was to come in August, and allowed us additional time to increase our portfolio overlay hedges in preparation for a possible storm. (For more information on how August turned out, wait for our August commentary or contact us at 604.730.9147).

Market volatility tends to be good for our managers as is increased dispersion. Volatility tends to create better entrance and exit points, while the more the dispersion, the more the opportunity for specialist managers who are expert within a sector to invest effectively both long and short, and potentially lock in profits on both sides of the ledger.

Such was the case in July, when almost all of our managers in each theme added to our returns. However, their gains were not enough to offset losses from our managers with tangential exposure to energy markets. As mentioned previously, we tend to avoid direct energy exposure because we believe our Canadian investors already have plenty of it in their portfolio and don't need more energy exposure from us.

We have however taken indirect energy exposure via our infrastructure theme. While not tied directly to the price of energy (indeed it has been a big winner for the portfolio in contrast to the collapse of energy prices in the past year), there are months like July when that strategy nevertheless can suffer from what we believe are temporary mis-pricings within the infrastructure sector.

July continued the pattern we've seen at the Inflection Strategic Opportunities Fund ('ISOF') since inception: a profile of hills and plateaus vs. the hills and valleys more typical of portfolios with too much exposure to the stock market. We believe ISOF's pattern of moving sideways rather than down during difficult periods is the result of successfully constructing a portfolio that benefits from thematic opportunities (the hills) and then uses several types of overlay hedges to mitigate loss when markets turn downward (the plateaus). By containing the downside and retaining the upside, the fund tends to produce superior returns over time, avoiding losses during highly volatile periods.

In July ISOF produced a net monthly US dollar return of -0.03% (4.69% in Canadian dollar terms), bringing our year to date total to 5.45% (18.89% in Canadian dollar terms). By comparison, the HFN Fund of Funds-Multi-Strategy Index, our closest US dollar benchmark, returned 0.10% for May (2.70% YTD) and the S&P TSX Index returned -0.53% (3.36% YTD). The Scotiabank Canadian Hedge Fund (Equal Weighted) Index lost -0.32% for the month and is up 0.58% for the year. Since inception in October 2010 ISOF has produced a net US dollar return of 40.86% (79.05% in Canadian dollar terms), outperforming the Scotiabank Canadian Hedge Fund Index by

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69.48%, the TSX Index by 44.49% (on a Canadian Dollar returns basis), and the HFN Fund of Funds-Multi-Strategy Index by 23.00% (on a US Dollar returns basis). Over that period ISOF maintained a Sharpe ratio of 1.24 (1.40 in Canadian dollar terms), and a correlation to the S&P TSX Index of 0.65 (-0.08 in Canadian dollar terms).

Inflection In the News

With all the upheaval of August, Ari Shiff, ISOF's President and Chief Strategist, was much in demand for sound bites on the benefits of hedging.

Globe & Mail reporter Tim Shufelt quoted Mr. Shiff for the page one story "MARKETS IN A TAIL-SPIN" on August 25th. To read the article, please click on the link below.

<http://www.theglobeandmail.com/report-on-business/economy/chinas-falter-triggers-panic-sparking-world-markets-selloff/article26086561/>

Also in August, Business in Vancouver reporter Jen St. Denis's headline story "Bonfire of Volatilities" quoted Mr. Shiff on ISOF's experience with China. To read the article, please click on the link below.

<https://www.biv.com/article/2015/9/bonfire-volatilities-fallout-chinas-contentious-mo/>

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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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.