

Fail Britannia? The U.K. Sets Sail to Uncharted Waters

The event that captured everyone's attention in June was the UK vote to leave the European Union. Although advance polls indicated the vote was too close to predict, markets treated the 'Remain' victory as a foregone conclusion as it made much more economic sense for Britain. All the more surprising then when the world woke up Friday morning to find that in fact isolationist sentiment dominated and 'Leave' had won.

The market's reaction was swift. The UK pound fell in value, as did the prices of assets tied to the UK economy. Yields also declined as world markets anticipated more central bank easing to address the political uncertainty of the UK vote. Reaction in the rest of the world was initially negative but then recovered. Global equities rebounded with emerging market assets seeing the strongest demand, offering both high yields and now more favourable valuations. Surprisingly, the US dollar did not strengthen against all currencies, perhaps because the shock was too short to spark a flight to this familiar safe haven. The strong rally in gold, however, may have indicated at least some understanding of the continuing erosion in value fiat currencies have undergone as central banks continue to ease in reaction to unfavourable events.

We believe that the sharp spikes in volatility of the past year, caused by events like the collapse of oil, the continued devaluation of the Yuan, and Brexit, are confirmations of a new regime of generally higher volatility, in which Central Bank policies are no longer able to fully suppress the natural tendency of markets to reflect risk in the movement of asset prices. The 'managed equilibrium' of the past several years appears to be giving way to the equilibrium of proper price discovery, something which has been perverted over the past decade, much to the frustration of value investors.

The majority of the strategies in the Inflection Strategic Opportunities Fund ('ISOF') are designed to profit from sustained volatility. Our managers are less concerned with the short term effects of an event like Brexit on the markets than they are with longer term asset price dislocations. Longer periods of volatility can take place whether broader markets are trending upward, downward, or even sideways. Should the UK (or its spurned partners in the EU) indeed enter a period of prolonged asset volatility, we will quite likely add opportunistic exposure to the fund.

ISOF analyzes the longer term implications of large macro events like Brexit, energy pricing, and China to find niche opportunities that are un-correlated rather than negatively-correlated to markets. Our goal is to provide our investors with a portfolio component quite different from traditional stocks and bonds while not working directly against stocks and bonds.

Inflection Performance: June 2016

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 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, 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 more detailed information.