

Inflection Performance: May 2015

In Long/Short We Trust

Inflection Strategic Opportunities Fund's ('ISOF's') long/short equity managers were the stars of our portfolio in May. In their various ways and in their various markets, each of them produced solid returns that continued to strongly contrast with the downward slope of Canadian equity markets since last August.

In May ISOF produced a net monthly US dollar return of 1.23% (4.36% in Canadian dollar terms), bringing our year to date total to 6.86% (14.56% in Canadian dollar terms). By comparison, the HFN Fund of Funds-Multi-Strategy Index, our closest US dollar benchmark, returned 0.96% for May (3.77% YTD) and the S&P TSX Index returned -1.57% (4.21% YTD). The Scotiabank Canadian Hedge Fund (Equal Weighted) Index gained 0.88% for the month and is up 4.34% for the year. Since inception in October 2010 ISOF has produced a net US dollar return of 42.74% (72.53% in Canadian dollar terms), outperforming the Scotiabank Canadian Hedge Fund Index by 63.92%, the TSX Index by 33.12% (on a Canadian Dollar returns basis), and the HFN Fund of Funds-Multi-Strategy Index by 23.65% (on a US Dollar returns basis). Over that period ISOF maintained a Sharpe ratio of 1.34 (1.34 in Canadian dollar terms), and a correlation to the S&P TSX Index of 0.64 (-0.09 in Canadian dollar terms).

Long/short trading is a technique that can be applied to many markets in an attempt to hedge out market risk, benefit from *all* market movements whether up or down, and improve returns. Market risk is the risk that an individual holding will decline in value because the whole market has moved lower. Over the last few weeks, many very strong companies' stocks decreased in value not because of any company specific news but because the whole market traded dramatically downward.

By contrast, long/short equity strategies seek to minimize market exposure by combining long positions that are expected to gain from *upward* market movement with short positions that are expected to gain from *downward* market movement. Although long/short managers require two skill sets vs. a long only manager's single skill set, the combination creates the potential to profit when markets are moving downward, as they all too frequently do.

Even better, markets occasionally have moments of clarity when *both* good companies are properly rewarded *and* weak companies are properly punished. May was just such a month, and many of our managers made money on *both* their long and short positions. The ISOF portfolio maintains diversification by geography, sector, and strategy and therefore saw gains in many diverse markets: Europe; Asian financials; technology, media, and telecommunications ('TMT'); utilities; energy; consumer stocks; health care; and especially event driven activity like mergers and acquisitions ('M&A').

Our European exposure warrants special mention as the gains, +4.85%, contrasted so dramatically with the market (EURO STOXX 50: -1.24%). On the long side, top contributors were Altice, TKH Group and Stabilus. On the short side, single-stock contributors were Royal Imtech and Elekta.

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Of course long/short trading is only one of the techniques our managers use in their quest to generate consistent returns regardless of market cycles. Many of our managers have also refined processes that can combine with favourable market conditions to produce an exceptional string of profitable months. One of our M&A manager's portfolios had 33 positions contributing two or more net basis points in May, an extraordinary testament to skill in a market where deal break-age and anti-trust regulation are constant risks.

Indeed that manager has produced profitable performance for 19 of the 21 weeks since the beginning of the year, in contrast to the S&P 500's record of only 11 positive weeks and 10 negative. To us that is more an indication of an excellent and repeatable process than impressive stock picking prowess that may or may not continue.

Even at the heightened pace of corporate event-driven activity seen this year, new deal announcements are accelerating with 19 announced in May vs. 17 in April (and only 8 last May). With the increased activity comes a tendency for more hostile and topping bids, both of which positively impact merger arbitrage spreads and thus the profits produced by our M&A managers.

Of course every silver lining has its cloud, and three of the managers we employ as hedges on other themes in the portfolio reduced our May performance by a combined 30 basis points. We believe the added safety during a period of macro-economic uncertainty is well worth the price.

Looking forward, we continue to see good dispersion as various markets come to terms with the inevitable start of policy normalization (the partial unwind of quantitative easing) in the US. Dispersion tends to be very favourable for long/short strategies so we are quite optimistic.

ISOF Available for Canadian Dollar, RRSP, RESP, and TFSA Accounts

In response to investor demand, Inflection Management Inc. is pleased to announce two changes to our offerings

- The Inflection Strategic Opportunities Fund ('ISOF') is now available in a Canadian dollar class in addition to our US dollar class. This class will be hedged to the Canadian dollar and is intended to produce the same nominal return as the US dollar class but in Canadian dollars
- We are now accepting advance commitments for registered accounts. Investors interested in investing their RRSP, RESP, or TFSA for a minimum of \$25,000 should contact Jamison McAuley at jmcauley@inflectionmanagement.com (604.742.2334) or any member of the Inflection Team

Sincerely,
The Inflection Team

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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. 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.