

Inflection Performance: November 2016

At Inflection, we assume that our clients already have a healthy allocation to equities, so we focus on creating a portfolio that complements that exposure and is uncorrelated to the stock market. Aside from providing an additional stream of return, ISOF aims to provide the much needed diversification that should protect your wealth from the volatility of the equity markets. When the next turn in the equity cycle comes, as it inevitably will again, your portfolio will be ready.

Whether in a bull market or a bear market, our goal is to achieve equal to or better than equity market returns over a full business cycle with a third of the volatility. We achieve this by investing in a basket of some of the world's best alternative managers. These managers are predominantly found in the global financial centres of New York and London, and are typically not available for purchase at Canadian Banks.

By focusing on only the best of breed and building a portfolio of managers who operate in distinctly different markets and take differentiated risks we are able to drastically reduce our volatility while still maintaining the ability to generate better than equity returns.

So this RRSP season, do your nest egg a favour and consider adding the protection of global alternative assets to your portfolio.

Market Review:

The election of President Trump had a very pronounced effect on the markets in November, most notably in the large increase in government interest rates. The move higher in yields pulled the US dollar higher while emerging market currencies suffered from fears of protectionist policies in the United States. Hopes of fiscal stimulus and tax reform drove US equity markets higher, with banks and industrials performing the best while former leaders, like technology, lagged behind.

Global economic activity continued to provide signals of a strengthening economy in November. The uptick in activity we have seen this year continued with firming labour markets providing the foundation for higher consumption in the developed world. Business investment could soon follow, but where we go from here is less certain, and how these new political developments will interact with the global economy is still unclear.

In our view, Trump's agenda has implications for monetary policy as well. With inflation firming and labour markets already tight, the U.S. Federal Reserve will likely have to tighten the monetary supply faster than previously expected, which may in turn have important implications for the rest of the world. Higher yields in the US and a rising US dollar are expected to tighten financial conditions and be a drag on growth for emerging markets. The Eurozone and Japan, on the other hand, should benefit from a lower Yen and Euro, and the larger difference in interest rates should provide more room for the Bank of Japan and European Central Bank to maneuver.

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Portfolio Review:

ISOF was up 1.85% in November with 5 of our 12 strategies profitable, led by Community Banking up 1.60%, Energy Trading up 0.76%, Volatility up 0.14%, European Credit up 0.11%, and Equity Market Neutral up 0.02%.

Detractors from performance for the month were Muni Trading down -0.33%, CTA down -0.28%, Short Credit down -0.04, Multi-Strategy down -0.04%, and ABS Trading down -0.04%. Convertible Arbitrage and Merger Arbitrage were essentially flat.

In November, ISOF's Series A net return was 1.85% bringing our year to date net return to -2.33%. By comparison, the HFRI Fund Weighted Composite Index returned 0.88% for the month (4.54% YTD), the S&P TSX Index returned 2.19%, (19.10% YTD) and the Barclays Global Aggregate Bond Index declined -3.97% in November (2.56% YTD). The Scotiabank Canadian Hedge Fund (Equal Weighted) Index gained 2.77% in November (8.25% YTD).

Since inception in October 2010, ISOF Series A has produced a cumulative return of 25.38% outperforming the Scotiabank Canadian Hedge Fund Index by 9.94%, the HFRI Hedge Fund Index by 1.99%, and the Barclays Global Aggregate Bond Index by 19.56%. With only 59% of the volatility, ISOF trailed the S&P TSX Index by 20.68% during the period, with a Sharpe ratio of 0.57 and a correlation to the S&P TSX Index of 0.57.

Business Update:

The Inflection Strategic Opportunities Fund is now eligible to be held in registered accounts!

We are pleased to announce that ISOF has now achieved mutual fund trust status and ISOF units are now a qualified investment for registered accounts. If you would like to invest in ISOF via your RRSP or other registered accounts, please contact us as soon as possible to ensure meeting the fast approaching March 1, 2017 RRSP deadline.

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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Disclosure

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, 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.