

### **“Did you know you can invest your RRSP in ISOF?”**

Contributions to RRSPs are due by March 1, 2017\*.

\*Check CRA online or with your accountant for maximum contribution levels.

### **Do the Pivot**

2016 was very much a year of two halves, with a sharp pivot almost exactly in the middle. After seven long years, the markets' reliance on monetary policy finally gave way to a new paradigm dominated by the rise of populist governments and the prospect of pro-cyclical fiscal stimulus and protectionism. The current environment of rising dispersion, interest rates and volatility is ideal for the kinds of strategies that underlie the Inflection Strategic Opportunities Fund ('ISOF').

After the dual surprises of the Brexit vote and the election of Donald Trump, regime change appears to be upon us, and we believe the next few years are going to be very different from 2009-2016. In our view, investment ideas that worked over the last seven years will likely not work as well in the years ahead. We are now late in the business cycle, with elevated valuations, perhaps too-high expectations, tightening monetary policy, and rising volatility - all of which are favourable for our managers.

Accordingly, ISOF pivoted too, changing the focus of the portfolio and the nature of our hedging. Among other changes, we are capitalizing on the rise of volatility by sourcing niche strategies that effectively pay us to own insurance by capturing market inefficiencies, rather than having to pay to protect the portfolio. The inflection point is starkly visible in our results: the fund has gained 6.92% since the end of June.

ISOF was up 3.12% in December with nine of our twelve strategies profitable. Rising interest rates and President Trump's agenda are both expected to be very good for the banking industry, and our Community Banking strategy led our December gains, up 1.46%, followed by Energy Trading, up 0.88%, CTAs up 0.41%, Volatility up 0.19%, Municipal Bond Trading up 0.17%, Merger Arbitrage up 0.14%, Multi-Strategy up 0.09%, Convertible Arbitrage up 0.07%, and European Credit up 0.05%.

Detractors from performance for the month were Short Credit, -0.06%, ABS Trading, -0.09%, and Equity Market Neutral, -0.17%.



Inflection Performance: December 2016

As a fund designed to provide an all weather uncorrelated source of returns to complement our Canadian investors existing portfolios, ISOF purposely avoids equity market exposure and focuses internationally on finding best of breed managers with repeatable, durable and defensible investment processes. Our managers rely on analytic skill to capture inefficiencies in market pricing and therefore are less dependent on correctly guessing the general direction markets are heading. This means they have the ability to make money in good times or bad, regardless of whether the stock market is moving up or down.

These types of strategies can produce higher risk-adjusted returns than more directional investments such as long-only equity investing. Higher risk-adjusted returns mean taking on less risk for the same return, or getting a better return for the same risk, either of which is a more efficient return on capital. We can improve those key qualities further by building a diversified portfolio of these strategies that are uncorrelated to one another because they take on distinctly different risks. The result is a portfolio that we believe should produce higher returns for the same level of volatility.

2017 has already provided a wealth of opportunities for strategies that meet our criteria. President Trump is proving himself to be a mercurial leader, and while his improvisational style may not be favourable for more traditional investments that require long-term stability, it is excellent for strategies that thrive on volatility. Moreover, with virtually every stroke of his pen, Trump creates greater dispersion in markets by declaring winners and losers, and that dispersion improves returns for relative value managers who play one security off against another.

We expect that, despite our growth, we will continue to benefit in the year ahead from our smaller size by investing in opportunities that are too small for larger funds to access. As investors rebalance their portfolios and pare back their equity exposure after 2016's strong run-up, we expect many will see alternatives as an appealingly safe harbor in what looks to be an increasingly stormy sea.

Sincerely,

The Inflection Team

The Inflection Strategic Opportunities Fund 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 invest

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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.