Inflection Commentary

INFLECTION
Alternative Assets

Inflection Performance: April 2017

It Ain't Easy Being Uncorrelated

The goal of the Inflection Strategic Opportunities Fund ('ISOF') is to provide an uncorrelated average net return over time of 8%. In this month's commentary, we want to focus on two key words:

- Uncorrelated
- Return

Uncorrelated

Canadian investors are able to choose from a rich universe of long-only equity funds with a high likelihood of tracking TSX index returns. Most of those funds are well-managed and should be considered as a core part of most Canadians' long-term investment strategies.

We believe ISOF should also be a core part of most Canadians' investment portfolios, but for different reasons. ISOF was constructed to complement our typical clients' portfolios by providing something different – not just in approach, but in result. Generally speaking, our clients already have equity exposure and they already have real estate exposure. ISOF is a way to diversify those risks and broaden your opportunity set away from (and beyond) the S&P/TSX, which is famously over-weighted to financials and resource stocks.

ISOF has the distinction of being a unique product in the Canadian market place: a carefully constructed portfolio of exposures to over a dozen international, world-class, US- and Europe-based alternative asset managers that allows Canadians to invest alongside some of the most successful investors of our time for less than the minimum investment required to access any one of those funds individually.

And ISOF isn't a US import designed for Americans with Canadians as an afterthought. It was designed from the outset to benefit the particular needs of taxable and non-taxable Canadian investors.

So while it is somewhat frustrating to be down -0.71% YTD (Series A)* through the first four months of the year after finishing 2016 so strongly (+6.92% in the last 6 months of 2016), we have a high degree of conviction in the portfolio and expect good results over the remainder of the year. Moreover, we remain confident that we are positioning the portfolio to achieve its long-term return threshold, with uncorrelated returns that provide our investors with the diversification and risk mitigation they seek from us.

* The performance numbers included in this letter are estimates only. The performance of your investment may vary for multiple reasons. Please rely on your monthly statements (from SGGG) for performance relating to your individual accounts.

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Return

Successful investing is a long game and the benefits of diversification are sometimes evident only over a full economic cycle. Getting your asset mix right and sticking to it is one of the largest determinants of returns and is essential to not only preserving wealth but building it over the long run.

When we look back at our results over the last two years we see that we were well-prepared for any of the macroeconomic risks that were threatening our clients' equity portfolios at the time. Our portfolio had a fairly high number of long-biased managers paired with tail hedges that were designed to produce outsized gains if the market had crumbled. Upon analysis, however, we were not satisfied with the absolute net returns delivered by our managers, nor the correlations ISOF produced. So last winter we began to tailor our fund selection criteria to target a more 'all-weather' return stream while employing newly developed methods to hedge portfolio risk at much lower cost.

The bulk of the strategies underlying the fund today have been added over the past 18 months and are intended to result in higher total returns, higher risk-adjusted returns, lower beta and correlation, and more alpha. These meaningful improvements across all of our metrics are already visible in our results since July 2016, and further increase our value to investors when combined with a traditional portfolio of stocks, bonds, and real estate.

In particular, we severely limited the amount of long-biased (market) exposure in the portfolio and focused more intently on higher risk-adjusted return managers with a low correlation to one another in both the arbitrage and relative value spaces. Because these managers are betting the value of one security against another they remove much of the market risk from their strategies on a net basis. Additionally, these managers' portfolios are made up of a large number of small bets based on a diversified set of idiosyncratic risks that are uncorrelated to one another, making the aggregate return stream very stable, and less subject to large drawdowns if they get a single trade wrong.

Zooming in on 2017, the majority of the funds in our portfolio are performing well and, importantly, all are performing in line with expectations.

We will have more to say over the next few months about other enhancements we are making to the rigor of our manager selection and portfolio construction processes.

Sincerely,

The Inflection Team

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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.

Inflection Management Inc.
Suite 2300 - 1066 West Hastings Street
Vancouver, British Columbia
Canada V6E 3X2

Tel: 604.730.9147
www.inflectionmanagement.com

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 Ag-gregate 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.