FORMULA GROWTH LIMITED

- Strong start to the year for the FG Alpha II Fund up US$ 15.1% net of fees.
- Successful implementation of new risk management tools.
- Sharpe ratio of 1.2 in the quarter.
- Returns widely diversified across thirty different names in four sectors.

April 23, 2012

# Formula Growth Alpha II Fund

## 1st Quarter 2012 Results

Dear Investors,

**Quarterly Review**

The stock market had one of the strongest first quarters on record with the S&P 500TR and Russell 2000TR increasing 12.6% and 12.4% respectively. Markets responded strongly to a calming of the European debt crisis through implementation of the LTRO and the strong economic data in the United States. Amidst this backdrop the fund had an excellent quarter, up US$ 16.2% and 15.1% gross and net of fees respectively. (C$ 16.5% gross and 14.9% net for currency hedged class).

The extreme pessimism of the market, due in large part to the debt troubles in Europe and a U.S. recovery which is still confounding critics, was causing investors to overlook the strong economic and earnings data. Due to our economic outlook and very attractive valuations, we saw large opportunities for outsized returns in our long book and thus entered the quarter with an aggressive posture. In late January, post the large initial move in the stock market, we began to reduce our long exposure as many of our stocks approached their near term fair values.

Whereas The FG Alpha II Fund was seeded in May 2011 to offer a less directional fund than the FG Hedge Fund, an extensive review of our risk management processes took place in Q4 of 2011 and the Fund's strategy was enhanced to increase the neutrality of the product. We are happy to report that these strategies have proven successful thus far, as evidenced by a decrease in daily volatility from over 20% annualized prior to December 31, 2011 to 12.6% in Q1 of 2012.

Here is a summary of the new Risk Management strategies which the Fund has begun using to better manage the neutrality of the FG Alpha II Fund::

- More restrictive portfolio and sector exposures (dollar and beta exposures)
- Portfolio construction evolving from a static SPY Short overlay to a dynamic hedging process with more alpha short positions and pairs
- Hard stop losses in place with specific triggers to cut a positions
- Improvement at monitoring intra stock, industry and sector correlation/betas/risk factors
- Creation of an independent Risk Committee reporting to the CIO/CEO
- Alignment of interest - Formula Growth added to its investment in the FG Alpha Fund

**Relative Return Analysis**

| | Alpha II | S&P500 | R2000 |
|---|---|---|---|
| **Statistical Analysis** | | | |
| Total Gross Return | 16.2% | 12.6% | 12.4% |
| Average Daily Return | 0.3% | 0.2% | 0.2% |
| Deviation of Daily Returns | 0.7% | 0.6% | 1.0% |
| **Up Market Analysis** | | | |
| Number of Up Days | 40 | 39 | 32 |
| Largest Daily Gain | 2.5% | 1.8% | 2.2% |
| Fund % Up Capture | | 98% | 57% |
| **Down Market Analysis** | | | |
| Number of Down Days | 22 | 23 | 30 |
| Largest Daily Loss | -1.3% | -1.5% | -2.1% |
| Largest Draw Down from Peak | -2.0% | -2.2% | -5.3% |
| Fund % Down Capture | | 45% | 10% |

FORMULA GROWTH

We remain committed to continuously perform our successful bottom-up stock picking process which Formula Growth has been successful with for over 50 years.

**Market and Beta Exposure**

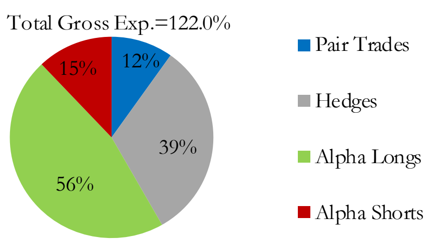
| | Dec-31 | Avg. | Mar-31 |
|---|---|---|---|
| Gross Long | 78.5% | 66.6% | 63.4% |
| Gross Short | -51.7% | -56.9% | -58.6% |
| Net | 26.8% | 9.7% | 4.8% |
| Total Gross | 130.3% | 123.4% | 122.0% |
| Net Raw Beta | 0.87 | 0.45 | 0.32 |

## Portfolio Positioning

The average net exposure of the fund during the quarter was 9.7% with an average net beta of 0.45. Following this quarter's early recovery in equity prices, the net exposure and beta of the fund were reduced from 26.8% and 0.87 to 4.8% and 0.32 at the end of March respectively. The reduction in net exposure and beta was achieved by a combination of reducing the alpha long book, shifting to a sectoral hedging model and utilizing a dynamic pairing strategy.

Portfolio alpha longs were sold during the quarter, cutting them from 78.5% to 63.4% gross long. Most of this reduction occurred in the Financial sector which was reduced from 17.6% to 8.9% gross long at the end of the quarter. The IT book was also reduced as profits were taken from several names over the course of January and February. The alpha short book remained stable during the quarter at approximately 15% of the total gross exposure.

**Strategy Breakdown (Period End)**



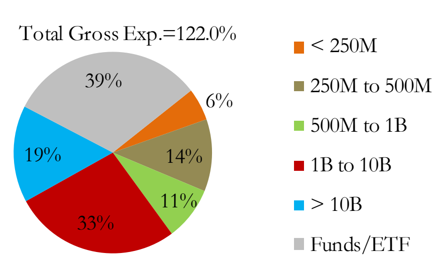

The hedging book remained stable at approximately 39% of the total gross exposure over the period. In mid-January, half of the hedging book was moved from broad market ETF's to sectoral ETF's. This was done in order to better align the portfolio, and provide greater flexibility to adjust our view on a sectoral basis, to the underlying stock picking process which Formula Growth has used for over 50 years. We expect to gradually move some of the market hedging components towards alpha shorts as the ideas present themselves and are actionable. The sectoral ETF tools will most likely continue to be used, to varying degrees, as cheap and effective hedges going forward.

The pair trading book averaged approximately 8% of the total gross exposure over the quarter. The first trades were implemented in late January and the total number of dynamic pair trades implemented in the quarter was 5. We will be using pair trades against investments in the alpha long or short books in circumstances where there is considerable industry and company specific risk which we can hedge using an actionable investment.

**Positions and Returns by Market Cap (Period End)**

| | # of Longs | # of Shorts | Total | QTD Return |
|---|---|---|---|---|
| < 250M | 5 | 1 | 6 | 2.4% |
| 250M to 500M | 12 | 1 | 13 | 3.8% |
| 500M to 1B | 7 | 2 | 9 | 2.1% |
| 1B to 10B | 16 | 7 | 23 | 5.4% |
| > 10B | 6 | 4 | 10 | 6.1% |
| Funds/ETF | 0 | 7 | 7 | -3.7% |
| Total | 46 | 22 | 68 | 16.2% |

**Market Cap Breakdown (Period End)**






MONTREAL
1010 SHERBROOKE ST WEST, SUITE 2300

NEW YORK
28 WEST 44TH STREET, SUITE 1515

HONG KONG
(PHOENIXINVEST) 27/F, TWO EXCHANGE SQUARE

FORMULA GROWTH LIMITED

## Portfolio Attribution

Our returns were broadly distributed with over 30 individual names contributing over 20bps to performance in the quarter. Of these names, 10 were new positions initiated in the first quarter. The long book contributed the most over the quarter, adding 20% to returns. The alpha short book performed well considering the very strong U.S. equity market and contributed to a loss of only 0.8%. The pair trades contributed positively to the portfolio, adding 0.7% overall. The hedging component of our strategy reduced overall returns by 3.7%. The short, pair and hedging books did contribute to lower the overall volatility of the return stream.

The major contributors to the strong first quarter performance were the Financial sector which contributed 4.9%, the Consumer Discretionary sector which contributed 4.2%, the Energy sector which contributed 3.5% and the IT sector which contributed 2.7%.

**Net Exposure**

| | Dec-31 | Avg | Mar-31 |
|---|---|---|---|
| Financials | 11.6% | 6.4% | 2.1% |
| IT | 13.6% | 7.3% | 6.2% |
| Cons. Discret. | 8.8% | 6.6% | 10.7% |
| Energy | 9.6% | 3.9% | -1.0% |
| Industrials | -4.8% | -4.0% | -3.4% |
| Other | -11.9% | -10.6% | -9.9% |

**Attribution**

| | January | February | March | QTD |
|---|---|---|---|---|
| Financials | 2.9% | 1.2% | 0.7% | 4.9% |
| IT | 1.5% | 0.7% | 0.5% | 2.7% |
| Cons. Discret. | 1.4% | 2.1% | 0.6% | 4.2% |
| Energy | 1.2% | 2.7% | -0.4% | 3.5% |
| Industrials | 0.8% | 0.5% | 0.3% | 1.6% |
| Other | -0.5% | 0.0% | -0.2% | -0.7% |

## Financials

The Financial sector was our top performing sector contributing 4.9% with an average net exposure of 6.4%. After a dismal 2011, we had a high degree of conviction on financials heading into the new year and the sector was trading at a very low valuations. Positive catalysts were emerging in the near term, these included increased capital ratios, the conclusions of the Fed stress tests and the implementation of the LTRO in Europe. Our top contributors were Bank of America and Citigroup. Exposure to the group was reduced in January by eliminating our position in Bank of America and reducing our positions in other financials as they approached our near term targets.

## Consumer Discretionary

The Consumer Discretionary sector contributed 4.2% with an average net exposure of 6.6%. The top contributor was Corinthian Colleges, a post-secondary for-profit education company. Additional long-side contributors included a U.S. cinema operator and several automotive companies. On the short side, we saw profitable contributions from Blue Nile, an on-line jewelry retailer.

## Energy

The Energy sector contributed 3.5% on an average net exposure of 3.9%. Our top contributors in the quarter were Plains Exploration and Endeavour International. We also saw strong contribution from the Energy Services sector where we exploited a strong North American seismic cycle with a couple of long positions. On the short side we had significant contributions from an overvalued North Dakota based producer and an oil equipment manufacturer which we saw having material downside earnings revisions potential.

FORMULA GROWTH

**Information Tech**

The Information Technology sector contributed 2.7% on an average net exposure of 7.3%. The sector was strong in Q1 driven by positive earnings, strong balance sheets and is benefiting from increased spending by U.S. corporations. Our top contributor was Lender Processing Services which provides technology platforms to banks helping them with their loan origination and foreclosures. The return stream was broad based with 13 separate names contributing more than 10bps to total returns in the quarter.

**2nd Quarter Outlook**

We entered the second quarter with a more conservative posture then we began the year. Given the large move higher in equity markets, we see less upside potential on an individual name basis and have maintained our low net exposure thus far in April. The team continues to be active adding new alpha long ideas this month; however, post the equity rally that began in Q4 of 2011, our return thresholds of 30 to 50% are more difficult to attain. We also have an increasing pipeline of alpha shorts in the Consumer Discretionary sector where we have concrete files and are awaiting validation of our thesis in order to execute on these ideas in Q2.

With this backdrop, we continue to see a relatively constructive market for equities driven by record low interest rates, a continued rotation into risky assets from bonds and the generally improving job and housing trends in the U.S. In addition, low valuations coupled with solid corporate balance sheets should encourage mergers & acquisitions in the back half of the year. That being said, we are keeping a watchful eye on the situation in Europe and China, the impact of high oil prices, the potential for long-term interest rates to increase in the U.S. and the pending fiscal tightening in the U.S. post the election cycle in 2012.

Thank you for your confidence,

Formula Growth

FORMULA GROWTH LIMITED

# Notes & Disclaimers

- Performance figures reported represent the US$ performance of the Formula Growth Alpha II Fund L.P. (the "Fund") and are based on an investment in the Fund made on May 1, 2011, the date of the Fund's inception. Gross performance figures are presented after reduction for any investment and fund accounting related expenses, net interest, other expenses and the reinvestment of dividends, and include any gains or losses from "new issue" securities. Per the Fund's High Water Mark provisions, net performance figures take into account a 1% Management Fee and a 20% incentive allocation. Performance results for particular investors may vary from the performance stated herein as a result of, among other things, the timing of their investment(s) in the Fund, different management and incentive allocation terms and the respective investor's eligibility to participate in "new issue" securities.
- Performance attribution figures reflect summations of the respective profits and losses divided by the average of the beginning and end of month total gross Fund assets, and are not inclusive of expenses, management and incentive fees/allocations. Other income/expense items such as stock lending fees, interest income/expense, dividend income/expense, administrative fees and other portfolio related fees may or may not be included. Performance attributions should be considered approximations and are calculated to the best of our knowledge.
- Beta is calculated by Formula Growth Ltd. using the Bloomberg system and is the trailing 6 months daily returns versus the S&P 500 unadjusted (raw).
- Exposure represents the market value of all equity securities and single-equity-backed instruments (i.e. derivatives) as of the date of this statement. Exposure numbers exclude currency hedges.
- Sector and industry classifications are determined by Formula Growth Ltd. using available sources such as Bloomberg. Exposures based on these figures should be considered as approximations and are calculated to the best of our knowledge.
- Market Capitalization represents the relative market capitalization of long and short positions on a U.S. dollar adjusted basis using available sources such as Bloomberg. Exposures based on these figures should be considered as approximations and are calculated to the best of our knowledge.
- All performance figures contained herein are unaudited estimates and subject to change. Certain information contained herein may have been provided by third party sources, and, although believed to be reliable, has not been independently verified and cannot be guaranteed.
- Formula Growth Ltd. serves as the investment manager for the Fund. Investors should consult the Offering Memorandum (the "Memoranda"), which is available upon request, for more information on the investment strategy, complete disclosures and the terms and conditions relating to an investment in each Fund.
- Any investment in the Fund is speculative and involves substantial risk, including the risk of losing all or substantially all of such investment. No representation is made that the Fund will or is likely to achieve their objectives, that any investor will or is likely to achieve results comparable to the estimated performance shown, will make any profit at all or will be able to avoid incurring substantial losses. Past performance is not necessarily indicative of future results.
- Performance estimates are presented only as of the date referenced above and may have changed materially since such date.
- The Fund has monthly liquidity provisions for redemptions and subscriptions. There is no secondary market for the interests in the Fund and none is expected to develop. There are restrictions on transferring interests in the Fund. Formula Growth Ltd. has total trading authority of assets within the Fund.
- The Fund's high fees and expenses may offset its trading profits. The fact that Formula Growth Ltd. is eligible to receive an incentive fee or allocation may create an incentive to make investments on behalf of the Fund that are riskier or more speculative than would be the case in the absence of such priority allocation of profits.
- The Fund may be denominated in a currency that is not the currency of your own jurisdiction and thus may be subject to any fluctuation in exchange rates between your investment in the Fund and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of your investment.
- The Fund is subject to conflicts of interest. Please review the "Risk Factors" and "Conflicts of Interest" sections in the Memoranda.
- This document is intended only for the person to whom it has been delivered by Formula Growth Ltd. This document is provided for informational purposes only, may not contain certain material information about the Fund, and is not an offer to sell or a solicitation of an offer to buy any interest or shares in the Fund. Any investment decision in connection with the Funds should be made based on the information contained in the Memoranda. This document is the property of Formula Growth ltd., is strictly confidential and may not be reproduced or redistributed nor may any of its contents be disclosed to any other person under any circumstances. This document is not intended to be, nor should it be construed as, financial, legal, tax, accounting or investment advice or recommendations.