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- Risk management tools reduced daily volatility to 50% of market, Fund drawdown was 5.4% versus 9.6% and 11.6% for U.S. markets.
- Strong stock selection in the Alpha Short book and increases to the Hedge book contributed 2.5% and 1.9% on average exposure of 11% and 45% respectively.
- Stock specific earnings pre-announcements from the Alpha Long book were the major contributors to a decline of US$ 4.8% (C$ -4.4%) net of fees in Q2.

July 24, 2012

Formula Growth Alpha II Fund

2nd Quarter 2012 Results

Dear Investors,

Quarterly Review

The stock market had a very volatile second quarter, the S&P 500 TR and Russell 2000 TR indices finishing down 2.8% and 3.5% respectively. Both indices experienced significant declines of 9.6% and 11.6% respectively from their intra quarter peaks to their lows while the Fund saw a drawdown of only 5.4%. This market volatility was mainly driven by renewed Eurozone fears and worries of a slowing global economy. While we were able to control the impact of stock market volatility, declining only US$ 1.5% in May versus -6.0% and -6.6% for the S&P 500 TR and Russell 2000 TR respectively, several negative stock specific outcomes hurt portfolio performance and the Fund ended the quarter down US$ 4.8% gross and 4.8% net of fees (currency hedged class: C$ 5.1% gross and 4.4% net of fees). Year to date the Fund is having an excellent year up US$ 10.6% gross and 9.6% net of fees (currency hedged class: C$ 10.5% gross and 9.9% net of fees).

We entered the quarter with a balanced view of risk/reward in the market after having lowered our exposure from our aggressive early year positioning. As the quarter progressed, we became increasingly concerned about continued deterioration in the Eurozone, a slowdown in China as well as the softening business tone we were picking up from our meetings with U.S. company managements. This compelled us to consistently reduce both our net exposure and net beta levels throughout the quarter.

Relative Return Analysis

	Q2			YTD		
	Alpha II	S&P500	R2000	Alpha II	S&P500	R2000
Statistical Analysis						
Gross Total Return (US$)	(4.8%)	(2.8%)	(3.5%)	10.6%	9.5%	8.5%
Average Daily Return	(0.1%)	(0.0%)	(0.1%)	0.1%	0.1%	0.1%
Deviation of Daily Returns	0.5%	1.0%	1.3%	0.6%	0.8%	1.2%
Up Market Analysis						
Number of Up Days	31	30	29	71	69	61
Largest Daily Gain	0.9%	2.5%	2.9%	2.5%	2.5%	2.9%
Fund % Up Capture		22.5%	15.7%		57.1%	36.0%
Down Market Analysis						
Number of Down Days	32	33	34	54	56	64
Largest Daily Loss	(1.6%)	(2.5%)	(3.0%)	(1.6%)	(2.5%)	(3.0%)
Largest Draw Down from Peak	(5.4%)	(9.6%)	(11.6%)	(5.4%)	(9.6%)	(11.6%)
Fund % Down Capture		36.7%	26.7%		38.7%	21.0%

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Portfolio Positioning

The average net exposure of the Fund in the quarter was 5.8% with an average net beta of 0.39. The slowdown we saw in Europe and China as well as the slowdown in U.S. earnings momentum caused us to reduce our net exposure and net beta throughout the quarter finishing with a negative net exposure of 9.2% and a net beta of 0.23. This reduction was primarily achieved through a reduction in the Alpha Long book, which peaked at 66.1% in early May, and the addition of Hedges to the portfolio.

Market and Beta Exposure

	Mar-31	Avg.	Jun-30
Gross Long	63.4%	63.3%	60.3%
Gross Short	(58.6%)	(57.5%)	(69.5%)
Net	4.8%	5.8%	(9.2%)
Total Gross	122.0%	120.9%	129.8%
Net Raw Beta	0.30	0.39	0.23

The majority of the reduction in Alpha Long exposure occurred in the information technology sector which was reduced from a gross long of 13.0% to 7.8% at quarter end. The Alpha Short book ended the quarter very close to where it began: 12.6% vs. 14.7%. However, intra quarter we took significant profits and covered several successful shorts taking the Alpha Short book from 14.7% to 8.1% in mid-May before rebuilding it back to 12.6% into the stock market rally late in June. We have recently added to our Alpha Short book in early July as the market rally and recent company visits has provided us with new stock specific opportunities.

Strategy Breakdown

	Mar-31	Avg.	Jun-30
Pair Trades	12.0%	5.3%	6.0%
Alpha Long	56.4%	60.3%	57.9%
Alpha Short	14.7%	10.8%	12.6%
Hedges	38.9%	44.5%	53.3%

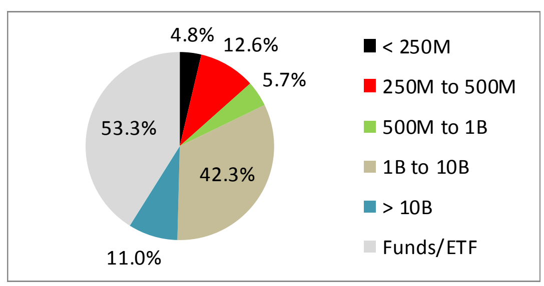
The hedge book increased to an average of 44.5% in the quarter and finished the quarter at 53.3% up from 38.9% in Q1. Our view of market risk increased over the course of the quarter and we felt it prudent to increase the protection provided to the portfolio from these instruments.

The pair trading book averaged 5.3% of the total gross exposure in the quarter. We had 4 active pair trades implemented; however, we found more money making ideas in the pure Alpha Short category in the quarter as our idea flow was coming from bottom up Alpha Shorts rather than new Alpha Longs that we wanted to pair in order to reduce company specific risk.

Positions (Period End) and Returns by Market Cap

	# of Longs	# of Shorts	Total	QTD	YTD
< 250M	4	0	4	0.2%	2.7%
250 to 500M	11	1	12	(1.5%)	2.1%
500M to 1B	3	3	6	0.3%	2.5%
1B to 10B	20	10	30	(4.1%)	0.5%
> 10B	4	2	6	(1.5%)	4.4%
Funds/ETF	0	8	8	1.9%	(1.4%)
Total	**42**	**24**	**66**	**(4.8%)**	**10.6%**

Market Cap Breakdown (Period End)



Portfolio Attribution

Once again our returns were broadly distributed with 19 names contributing more than 10bps of return in the quarter and 16 names contributing more than 15bps. Of these, 6 were new names initiated in the quarter. We were very pleased with the

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Strategy Attribution	Q1	Q2	YTD
Pair Trades	0.7%	(0.5%)	0.1%
Alpha Long	20.0%	(8.7%)	9.9%
Alpha Short	(0.8%)	2.5%	2.1%
Hedges	(3.7%)	1.9%	(1.4%)

performance of the Alpha Short book which was an area of focus for us coming out of Q1. The Alpha Shorts contributed 2.5% to returns, the Hedge book contributed an additional 1.9% while Pair Trades cost us approximately 0.5%. We were quite disappointed with the performance of the Alpha Long book which lost 8.7% as we unfortunately had several stock specific earnings disappointments which negatively hurt our return profile by approximately 3.5%.

The major detractors to the second quarter performance were the Financial sector that lost 2.1%, and the Information Technology sector that lost 1.8%. Other active sectors included the Industrial and Energy sectors which lost 0.6% and 0.3% respectively. On the positive side of the ledger the Consumer Discretionary sector contributed 0.6% to total return.

Net Exposure

	Mar-31	Avg.	Jun-30
Financials	2.1%	3.4%	1.4%
IT	6.2%	1.6%	0.4%
Industrials	(3.4%)	(2.6%)	(7.6%)
Energy	(1.0%)	7.8%	6.6%
Healthcare	(2.4%)	(2.3%)	(4.5%)
Cons. Discret.	10.7%	3.8%	(0.5%)
Other	(7.5%)	(5.8%)	(4.9%)

Attribution

	April	May	June	QTD	YTD
Financials	(0.8%)	(1.6%)	0.3%	(2.1%)	2.4%
IT	(1.6%)	(0.4%)	0.1%	(1.8%)	0.6%
Industrials	(0.1%)	(0.2%)	(0.3%)	(0.6%)	0.9%
Energy	1.4%	(1.1%)	(0.7%)	(0.3%)	3.1%
Healthcare	0.1%	0.2%	(0.1%)	0.1%	0.1%
Cons. Discret.	(0.9%)	1.8%	(0.3%)	0.6%	4.8%
Other	0.1%	(0.0%)	(0.7%)	(0.6%)	(1.3%)

Financials

The Financial sector was our worst performing sector in Q2 losing 2.1% while YTD has contributed +2.4%. We had significantly reduced our exposure to financials during Q1 as our stocks attained their near term price targets and we entered Q2 with a net long exposure of only 2.1% versus 11.6% entering Q1. However, large cap money centers underperformed the sector on macro concerns and the majority of our losses came from Citigroup (101 bps) and Morgan Stanley (54 bps).

Information Tech

The Information Technology sector lost 1.8% in Q2 while YTD has contributed +0.6%. The sector suffered from general weakness in the group as well as some company specific disappointments. As the quarter progressed, we reduced our net exposure to the sector from 6.2% to 0.4% as visibility into earnings became less clear. The biggest contributor was Vocus (28 bps) while the biggest loser in the quarter was Polycom (68 bps) which reset earnings expectations during the quarter.

Industrial

The Industrial sector lost 0.6% in Q2 while YTD has contributed +0.9%. Our winners in industrials were mostly on the short side and included names such as Westport Innovations (18 bps) and Fastenal (17 bps). Our biggest loser was a long position in CRA International (95 bps) which also unexpectedly reset earnings expectations.

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Energy

The energy sector lost 0.3% in the quarter while YTD has contributed +3.1%. The energy sector has been the worst performing sector in the stock market this year; however, through solid stock selection on both the long and short side we have been able to add significant value. We entered the quarter with a conservative posture in the sector given our fears of high oil prices and the impact on the economy. As the price of oil and energy equities sold off significantly in April and early May, we covered some shorts and added long exposure in mid May. This proved to be a bit premature as energy stocks continued to sell off before stabilizing in June. Our top contributor in the quarter was Willbros Group, a new top 10 position in Q1, which added 95 bps after increasing over 60% in the quarter and was subsequently sold. On the short side FMC Technologies contributed 66 bps and was reduced in May as it approached our target price. Our bigger energy positions were hurt by negative group sentiment, the biggest loser in the Alpha Long book was Northern Oil and Gas (131 bps) despite having announced production growth of approximately 120%.

Consumer Discretionary

The Consumer discretionary sector was our best performing sector in Q2 and YTD up 0.6% and 4.8% respectively. Having added exposure to specific stocks close to the end of Q1, we entered Q2 with net exposure of 10.7%, but through the use of Alpha Shorts and Hedges we reduced exposure to –0.5% as we became concerned about the health of the U.S. consumer. Our best performing stock in Q2 was Carmike Cinemas (90 bps) on the long side and Sturm Ruger (47 bps) on the short side. Our worst performing stock was Tempur-Pedic (48 bps) which pre-announced lower sales and earnings.

2nd Quarter Outlook

We entered the third quarter with a neutral portfolio posture, a negative net exposure and slightly positive net beta. This neutral positioning is a result of both macro and micro factors. The perceived decelerating global economy, the still unresolved Euro Crisis and the pending U.S. fiscal cliff coupled with company specific channel checks, lead us to be more cautious into Q2 earnings season. These overhangs are offset by low valuation levels for stocks, record low interest rates and abundant central bank liquidity. We will continue to evaluate our net exposure positioning with each new data point we receive.

We would look to add exposure if we saw a big decline in the stock market, a more permanent structural solution to the Euro Crisis and U.S. fiscal cliff or a stabilization to improvement in the global economic outlook. Conversely, we would reduce exposure further if we continued to see negative company specific news and a further deterioration in the macro environment.

In Q3 we will be focused on equally adding both new longs and new shorts to our book in the search of alpha, thus maintaining a relatively neutral market posture while we await further data points to adjust our positioning.

Thank you for your confidence,

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- 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.
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- Performance estimates are presented only as of the date referenced above and may have changed materially since such date.
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