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- Risk management tools continue to function as the fund's volatility and correlation were half and one third respectively compared to the U.S. markets.
- The fund maintained a positive Sharpe ratio in the quarter of approximately 1.4.
- The Alpha Long book contributed 9.0% during the quarter, on average gross exposure of 52.4%, significantly outperforming the markets which were up 5.3% and 6.4% for the Russell 2000 and S&P500 respectively.

October 25, 2012

Formula Growth Alpha II Fund

3rd Quarter 2012 Results

Dear Investors,

Quarterly Review

The stock market had a strong third quarter with the S&P500 and Russell 2000 TR increasing 6.4% and 5.3% respectively. The US markets responded strongly to the delivery of additional quantitative easing from the Federal Reserve (QE3) and progress in moving towards a resolution in Europe. The fund had an excellent stock picking quarter increasing US$ 2.5% gross and 2.2% net of fees (currency hedged class: C$ 2.3% gross and 1.7% net of fees) despite having an average net exposure of -16.4% in the quarter. Our tight exposure level and risk management tools decreased the volatility of the fund to an annualized basis of approximately 6.1% versus 11.5% and 15.1% for the S&P500 and Russell 2000 respectively. The reduction in volatility and positive performance resulted in a Sharpe ratio of over 1.4. Year to date the fund is up US$ 13.3% gross and 12.0% net of fees (currency hedged class: C$ 13.1% gross and 11.8% net of fees).

We entered the third quarter concerned about the deterioration in global economic growth and the slowing signals we were picking up from our company specific data points. We steadily reduced our exposure throughout most of the quarter as economic indicators softened, while markets continued to rally on rumors and hopes of QE3. Net exposure bottomed out on September 14 with a negative net exposure of -22.9% and negative net beta of -.05 on the euphoric rise in the markets post QE3's formal announcement.

Relative Return Analysis

	Q3			YTD		
	Alpha II	S&P500	R2000	Alpha II	S&P500	R2000
Statistical Analysis						
Gross Total Return (US$)	2.5%	6.4%	5.3%	13.3%	16.4%	14.2%
Average Daily Return	0.04%	0.09%	0.08%	0.07%	0.08%	0.07%
Deviation of Daily Returns	0.4%	0.7%	1.0%	0.6%	0.8%	1.1%
Correlation		39.3%	31.2%		56.1%	55.8%
Up Market Analysis						
Number of Up Days	30	29	29	101	98	90
Largest Daily Gain	1.3%	2.0%	2.6%	2.5%	2.5%	2.9%
Fund % Up Capture		23.9%	13.1%		47.0%	28.7%
Down Market Analysis						
Number of Down Days	33	34	34	87	90	98
Largest Daily Loss	(0.6%)	(1.1%)	(2.0%)	(1.6%)	(2.5%)	(3.2%)
Largest Draw Down from Peak	(1.7%)	(2.9%)	(6.2%)	(6.5%)	(9.9%)	(12.9%)
Fund % Down Capture		15.0%	4.1%		32.2%	15.8%

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Portfolio Positioning

The average net exposure of the Fund in the quarter was -16.4% with an average net beta of .09. Equity markets steadily marched higher in Q3 prompted by hopes of further quantitative easing by the Fed. We continuously reduced our net exposure during the quarter following numerous management interviews and global economic indicators which suggested a possible slowdown in earnings. This intra-quarter reduction was achieved by selling Alpha Longs which had achieved their target prices, adding new Alpha Shorts and increasing the Hedge Book. The fund finished the quarter with a negative net exposure of -12.3% and net beta of 0.07 following the additions of new Pair Trades and a reduction of the Hedge Book once markets began to sell off late in the quarter.

Market and Beta Exposure

	Jun-30	Avg.	Sep-30
Gross Long	60.3%	59.9%	62.5%
Gross Short	(69.5%)	(76.3%)	(74.8%)
Net	(9.2%)	(16.4%)	(12.3%)
Total Gross	129.8%	136.2%	137.3%
Net Raw Beta	0.23	0.09	0.07

Strategy Breakdown

	Jun-30	Avg.	Sep-30
Pair Trades	6.0%	13.4%	19.8%
Alpha Long	57.9%	52.4%	52.1%
Alpha Short	12.6%	13.4%	13.7%
Hedges	53.3%	57.0%	51.7%

The majority of the reduction in the Alpha Long book occurred in the Information Technology sector. The increase in Alpha Shorts resulted from adding short positions in the Energy and Consumer Discretionary sectors. After peaking at 17.8% in mid July, the Alpha Short book bottomed at 8.8% in mid August as we took profits on several names. After rebuilding the book to 16.3% in early September, the fund ended the quarter at 13.7%. We expect much movement in the Alpha Short book as stocks hitting their target prices are harvested while new names are cycled in to the portfolio to replace them.

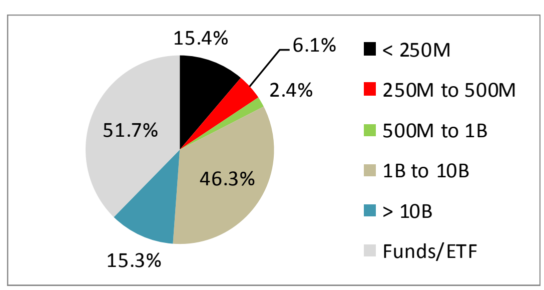
The Hedge Book averaged 57% in the quarter, up from an average of 44.5% in the 2nd quarter. We increased the use of hedges given our concern around a softening in the business tone and a continued rally in the equity markets. The Hedge book finished the quarter at 51.7% having removed some of these hedges in late September as the markets pulled back .

The Pair Trading book averaged 13.4%, up from an average of 5.3% in the 2nd quarter, and finished the quarter at 19.8%. During the quarter, we were able to find several suitable pair candidates for existing Alpha Longs and Alpha Shorts which served to reduce the sectoral and factor risks in these positions and the overall portfolio.

Positions (Period End) and Returns by Market Cap

	# of Longs	# of Shorts	Total	QTD	YTD
< 250M	8	0	8	(0.6%)	2.0%
250 to 500M	8	0	8	0.2%	2.4%
500M to 1B	2	2	4	1.5%	4.0%
1B to 10B	18	11	29	4.0%	5.0%
> 10B	3	3	6	1.4%	5.9%
Funds/ETF	0	8	8	(3.5%)	(5.3%)
Total	**39**	**24**	**63**	**2.5%**	**13.3%**

Market Cap Breakdown (Period End)



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Portfolio Attribution

Strategy Attribution	Q1	Q2	Q3	YTD
Pair Trades	0.7%	(0.5%)	(2.1%)	(1.9%)
Alpha Long	20.0%	(8.7%)	9.0%	19.4%
Alpha Short	(0.8%)	2.5%	(0.2%)	1.5%
Hedges	(3.7%)	1.9%	(3.7%)	(5.3%)

Our return stream was again broadly distributed with 31 names contributing 10bps or more in the quarter of which 9 were new names added in the 3rd quarter. Both the Alpha Long book and Alpha Short book performed very well in the 3rd quarter outperforming their market expected returns. The Alpha Long book increased 9% in the quarter on a gross exposure of only 52.4% while the Alpha Shorts only lost 0.2% on a gross exposure of 13.4%. Pair trades cost us 2.1% on a gross exposure of 13.4%.

Net Exposure	Jun-30	Avg.	Sep-30
Financials	1.4%	1.3%	3.0%
IT	0.4%	(2.7%)	(3.2%)
Industrials	(7.6%)	(3.8%)	(0.6%)
Energy	6.6%	4.5%	1.5%
Materials	(3.2%)	(3.0%)	(2.7%)
Cons. Discret.	(0.5%)	(6.4%)	(8.7%)
Other	(6.2%)	(6.1%)	(1.5%)

Attribution	July	August	September	QTD	YTD
Financials	(0.2%)	0.8%	0.8%	1.3%	4.1%
IT	(0.4%)	0.1%	0.6%	0.3%	1.1%
Industrials	0.4%	0.2%	0.5%	1.1%	2.1%
Energy	0.6%	0.2%	0.6%	1.4%	4.6%
Materials	(0.0%)	0.0%	(0.6%)	(0.6%)	(1.2%)
Cons. Discret.	(0.5%)	(0.9%)	(0.0%)	(1.4%)	3.3%
Other	0.2%	0.5%	0.0%	0.7%	0.1%

The major contributors to third quarter performance were in the Energy sector which added 1.4%, in the Financial sector which added 1.3%, and in the Industrial sector which added 1.1%. On the negative side of the ledger, the Consumer Discretionary sector cost us 1.4%.

Energy

The Energy sector was our best performing sector in Q3 adding 1.4% to total return while YTD has contributed 4.6% We aggressively added exposure to the Energy sector early in Q2 when stocks sold off. We maintained this overweight position steadily until late in Q3 when we began to take significant profits on the long side and added short exposure. Early in Q4 we currently sit in a more neutral posture as the rally in the group has us more mixed on the sector's prospects going forward. Our biggest contributor in the third quarter was Hercules Offshore which added 85bps to total return. The sector did not have a single alpha name that lost money in the 3rd quarter.

Financials

The financial sector was our 2nd best performing sector in Q3 adding 1.3% to total return while YTD has contributed 4.1%. Our net exposure has remained relatively consistent throughout the quarter averaging 1.3%. The financial sector performed very well in Q3 driven by European and U.S. central bank actions and discounted valuations entering Q3. We continue to maintain a neutral posture in the group post the recent run up, but are in the process of adding several new names while reducing exposure to certain others as they reach our price targets. Our top performer was Citigroup, which added 81bps in Q3. NYSE Euronext was our only loss in the quarter and contributed –2bps.

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Industrials

The Industrial sector was our 3rd best performing sector in Q3 adding 1.1% to total return while YTD has contributed 2.1%. Our net exposure has increased throughout the quarter ending at -0.6%, but averaging -3.8%. We continue to maintain a neutral posture in the group and hope to add value through stock selection. Our top performer was CRA International, which added 27bps in Q3. Our largest loss was the Toro Company which contributed –8bps in the quarter.

Consumer

The Consumer Discretionary sector was our worst performing sector in Q3 with a negative return of -1.4% while YTD has contributed 3.3%. Our net exposure declined steadily from -.05 % to -8.7% at quarter end as we added short exposure in the sector. Our negative posture in the group is predicated on stocks having appreciated substantially and risks remaining to consumer spending should the solution to the U.S. "fiscal cliff" involve both tax increases and Government spending restraint. Our top performer was Goodyear, which added 51bps in Q3. Our worst performer was Carmike Cinema, which cost us 146bps. These losses mainly occurred after the unfortunate event which occurred in a cinema in Aurora, Colorado which impacted traffic. The loss was partially offset as we hedged a portion of the box office risk by dynamically pairing it with the Canadian cinema operator Cineplex. We continue to monitor the situation closely as Q4 box office numbers begin to show some strength and the stock has recovered nicely so far in October, the position remains a positive contributor year-to-date.

4th Quarter Outlook

We entered the 4th quarter with a desire to keep our portfolio in a beta neutral range of –0.2 to 0.2. With the strong rally in the markets driven by Central Bank easing in the U.S. and Europe we feel that the markets are vulnerable to 3rd quarter earnings which are unlikely to live up to the enthusiasm shown in the markets over the past few months.

While encouraged by the slow progress being made in Europe and global Central Banks' desire to step in where political leadership has not, we think it is prudent to maintain a neutral posture for now until the markets digest Q3 earnings and we see better leadership and clarity out of Europe, Washington and China. The ability of Central Banks to drive economic growth is inherently limited unless governments provide leadership and clarity around key issues that are impeding the global economy.

We would look to add exposure if markets pull back or when we see tangible results from key governments in tackling the long term structural issues which are impeding economic growth. We would reduce exposure if markets continue to rally, if earnings materially erode or if we continue to see minimal or negative movement on the political front.

We will continue to remain focused on adding new Alpha Longs, Alpha Shorts and Pair Trades to our portfolio in the search of absolute returns.

Thank you for your confidence,

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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.
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