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- Sharpe ratio of 2.6 during the 2nd quarter, compared to 0.6 for the S&P500;
- Largest capital drawdown was 1.7% compared with 5.8% for the S&P500;
- Dynamic position management contributed to maintaining an Annualized Volatility of 5.9% in the quarter, approximately 1/3 of the major indices;
- Continue to hold a neutral portfolio positioning as high stock valuations continue to persist in this liquidity and momentum driven market.

August 8, 2013

Formula Growth Alpha II Fund

2nd Quarter 2013 Results

Dear Investors,

Quarterly Review

The stock market had a volatile second quarter as the first signals of potential tapering from the Fed caught the market off guard and caused a rout in bond markets which spilled over temporarily into the equities markets as well. The Alpha fund managed this volatility very well with annualized volatility of only 5.9% in the quarter vs. 14.1% for the SP500 and 18.8% for the Russell 2000.

Despite annualized volatility of approximately 1/3 of the major indices, the Alpha strategy generated a gross return of 3.4% (US$2.4% and C$ 2.8% net), matching market returns of 2.9% and 3.1% for the SP500 TR and Russell 2000 TR. The fund generated this return despite an average net exposure and net beta of –2.2% and 0.10 respectively in the quarter. Stock picking was very strong as witnessed by our Sharpe ratio of 2.6.

Entering the 2nd quarter, we had a neutral market posture, our views balanced between the positive tailwind of globally accommodative central banks offset by concerns around the impact of the eventual end of QE coupled with growing concerns around stock market valuation and the relative risk/reward trade-off in the marketplace.

Relative Return Analysis

	2nd Quarter 2013			2013 Year-to-Date			Strategy Inception-to-Date		
	Alpha II	S&P500	R2000	Alpha II	S&P500	R2000	Alpha II	S&P500	R2000
Statistical Analysis									
Period Gross Total Return (US$)	3.4%	2.9%	3.1%	4.7%	13.8%	15.9%	31.6%	32.0%	34.8%
Annualized Deviation of Daily Returns	5.9%	14.1%	18.8%	5.7%	12.4%	16.0%	7.8%	12.6%	16.7%
Sharpe Ratio	2.6	0.6	0.6	1.7	2.1	2.1	2.6	1.3	1.2
Strategy Correlation		27.2%	33.7%		15.6%	24.1%		41.9%	45.0%
Up Market Analysis									
Number of Up Days	39	37	37	74	74	76	219	206	197
Largest Daily Gain	1.0%	1.5%	1.8%	1.0%	2.5%	2.8%	2.7%	2.5%	2.9%
Strategy % Up Capture		17.7%	13.8%		6.9%	7.5%		35.5%	23.2%
Down Market Analysis									
Number of Down Days	25	27	26	50	50	47	155	168	176
Largest Daily Loss	(0.9%)	(2.5%)	(3.8%)	(1.1%)	(2.5%)	(3.8%)	(1.6%)	(2.5%)	(3.8%)
Largest Draw Down from Peak	(1.7%)	(5.8%)	(4.9%)	(3.0%)	(5.8%)	(5.4%)	(6.5%)	(9.9%)	(12.9%)
Strategy % Down Capture		1.5%	1.6%		(7.4%)	(2.9%)		14.4%	6.6%

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Portfolio Positioning

We entered the quarter with net exposure of (9.9%) a net beta of .01 and gross exposure of 140.7%. As markets continued to rally at the beginning of the quarter, many individual Alpha long positions hit their target prices and there were not many investments opportunities with sufficient return potential to replace them. On the short side, the market was momentum driven which contributed to an un-profitable Alpha short book despite the fundamentals arguing for a contraction in the stock price. Thus, to reduce our risk and volatility we greatly reduced the gross exposure of the fund throughout the quarter to a low point of 84.2%. This reduction in gross exposure served us well in June when the tapering talk by the fed caused a spike in volatility and market drawdown. The fund's largest drawdown intra quarter was only 1.7% as compared to 5.8% for the SP500 and 4.9% for the Russell 2000.

Market and Beta Exposure

	Mar-31	Q2 Avg.	Jun-30
Gross Long	65.4%	57.0%	51.3%
Gross Short	(75.3%)	(59.2%)	(40.9%)
Net	(9.9%)	(2.2%)	10.5%
Total Gross	140.7%	116.2%	92.2%
Net Raw Beta	0.01	0.10	0.19

Strategy Breakdown

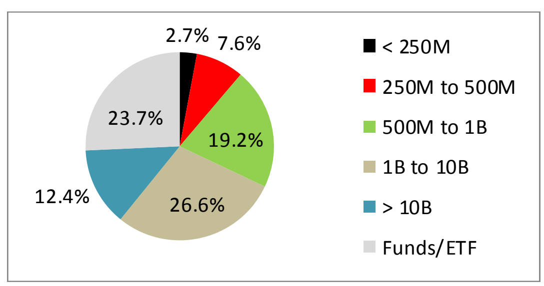
	Mar-31	Q2 Avg.	Jun-30
Pair Trade	18.5%	11.3%	0.0%
Hedge	47.2%	39.5%	23.7%
Alpha Long	56.0%	50.8%	51.3%
Alpha Short	19.0%	14.6%	17.2%

Our Alpha longs began the quarter at 56%, hit a low point of 43.7% on June 4th as we sold many profitable positions, before increasing back to 51.3% at quarter end. Our Alpha short book began the quarter at 19% before dropping to a low of 11.7% on April 19th and finished the quarter at 17.2% Our Pair Trading book began the quarter at 18.5% peaked at 24.3% on April 25th before dropping to zero on June 5th as several pair trades were unwound as either one side of the trade hit its target prices or it no longer provided an adequate hedge. Our Hedge Book began the quarter at 47.2% peaked at 52.2% on April 9th and finishing the quarter at 23.7% as we covered these offsetting hedge positions when Alpha longs were sold.

Positions (Period End) and Returns by Market Cap

	# of Longs	# of Shorts	Total	Q2	2013 YTD
< 250M	2	0	2	0.1%	2.8%
250 to 500M	8	1	9	3.4%	4.8%
500M to 1B	10	4	14	0.9%	1.8%
1B to 10B	15	8	23	0.3%	1.7%
> 10B	5	4	9	(0.8%)	(0.8%)
Funds/ETF	0	5	5	(0.7%)	(5.6%)
Total	**40**	**22**	**62**	**3.4%**	**4.7%**

Market Cap Breakdown (Period End)



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Quarterly Portfolio Attribution

Strategy Attribution

	Q1	Q2	2013 YTD
Pair Trade	0.6%	(0.1%)	0.5%
Hedge	(4.7%)	(0.7%)	(5.6%)
Alpha Long	6.1%	4.8%	11.2%
Alpha Short	(0.4%)	(0.8%)	(1.1%)

During the quarter 27 names contributed over 10bps or more to total return with 3 of these being new positions initiated in the quarter. The Alpha long book had an excellent quarter contributing 4.8% on an average exposure of 50.8%. The Alpha short book cost the fund 0.8% on an average exposure of 14.6% with 2 individual shorts accounting for the majority of the loss in the quarter. The Pair Trading book cost the fund 0.1% on average exposure of 11.3%. The Hedge Book was well managed after the timely removal of hedges allowed for an above average performance, costing the fund 0.7% on an average exposure of 39.5%.

The major contributors to second quarter performance were the Consumer Discretionary Sector which added 2.1% and the Industrial Sector that added 0.7%. The Energy, Financial, Health Care and IT sectors each contributed 30bps to return in the quarter.

Net Exposure

	Mar-31	Q2 Avg.	Jun-30
Cons. Discr.	(5.3%)	(2.5%)	1.1%
Cons. Staples	(2.8%)	(2.7%)	(2.6%)
Energy	(3.2%)	(0.3%)	(2.4%)
Financials	(1.7%)	(0.9%)	2.2%
Health Care	1.8%	0.7%	1.2%
Industrials	(3.8%)	(0.6%)	4.1%
IT	7.8%	5.0%	4.3%
Materials	(1.5%)	(0.1%)	2.6%
Telecom.	(0.8%)	(0.6%)	0.0%
Utilities	(0.5%)	(0.3%)	0.0%

Attribution

	April	May	June	Q2	2013 YTD
Cons. Discr.	(0.0%)	1.4%	0.7%	2.1%	3.1%
Cons. Staples	(0.2%)	(0.1%)	0.1%	(0.2%)	(0.1%)
Energy	(0.2%)	(0.1%)	0.7%	0.3%	(1.1%)
Financials	0.0%	0.0%	0.3%	0.3%	1.6%
Health Care	0.0%	0.4%	(0.1%)	0.3%	0.3%
Industrials	0.3%	0.4%	0.0%	0.7%	1.1%
IT	(0.4%)	0.4%	0.3%	0.3%	1.0%
Materials	(0.1%)	0.1%	(0.3%)	(0.3%)	(0.6%)
Telecom.	(0.0%)	0.1%	(0.0%)	0.1%	0.0%
Utilities	0.0%	(0.0%)	0.0%	(0.0%)	(0.1%)

Consumer

The Consumer Discretionary Sector was our best performing sector adding 2.1% to total return. We had an average net exposure of -2.5% and ended with a net exposure of 1.1%. The Consumer discretionary sector was a solid contributor in the market for the second quarter in a row driven by a continued recovery in consumer spending, an improving labor market and an improving housing market. Our top contributors in Q2 were long positions in Stoneridge (197bps), a parts supplier for the auto and trucking markets, as well as Goodyear Tire and Rubber (70 bps). Our biggest loser was a short position in Tesla Automotive (99bps), as they produced better than expected Q1 results. We have completely exited our positions in Stoneridge and Tesla, while continuing to own Goodyear, which is a big contributor so far in Q3.

Industrial

The Industrial Sector was our second best performing sector adding 0.7% to total return. We had an average net exposure of -0.6% and ended with a net exposure of 4.1%. Our top contributors in Q2 was a long position in Arkansas Best (37bps), which provides freight transportation services, as well as a short in Apogee (14 bps). Our biggest loser was a long position in Blount

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International (13bps). We have exited both Arkansas Best and Apogee as they have reached our target prices while continuing to own Blount International.

3rd Quarter Outlook

We continue to maintain a neutral posture as we enter the third quarter, there is no doubt that the market strength continues to be fueled by the large liquidity injections of global central banks while investors have begun pulling money from bond funds and reinvesting those proceeds in the stock market. However, the first signs of rising interest rates are clearly being seen in the marketplace and we are concerned about the impact of rising rates on the economy and the stock market, as investors willingness to shift out on the risk curve may be dampened if fixed rates begin to provide a more attractive return alternative.

In addition, the valuation of the stock market has become much more demanding as these historically low interest rates has caused a major re-rating to multiples and valuations in the U.S. stock market. It is becoming increasingly more difficult to find new Alpha long ideas that meet our 30% to 50% return threshold, which has historically been a good barometer for us of market over and undervaluation.

With the market extending its gains in July we will continue to position the fund in a neutral posture focusing our core process of stock picking, minimizing the fund's volatility and protecting our investors from any potential drawdowns in the market.

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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