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Highlights:

August 11, 2014

- Strong risk adjusted returns: Sharpe ratio of over 4 despite higher than usual volatility in the small to mid capitalization markets;
- The Fund again exhibited strong drawdown protection with an average downside capture ratio of virtually zero and a peak to trough drawdown of only –2% versus –8% for Russell 2000;
- Fund year-to-date results of 10.5% are well ahead of traditional benchmarks and our internal absolute return benchmark.

Formula Growth Alpha Fund

2nd Quarter 2014 Results

Dear Investors,

Quarterly Review

The Alpha strategy performed strongly in Q2 with a net return of +4.9% compared to 5.2% for the S&P 500 and 2.0% for the Russell 2000. The Fund once again demonstrated its mandate of capital preservation in April (+1.4%) as heavily owned hedge fund names and popular technology stocks sold off causing the Russell 2000 to lose -3.9%. Moreover, in 2014 we would note that the Fund was up by more than 10% between January and May while the Russell 2000 was down 2%. Peak to trough, the same Russell index was down a surprising 8.1% in the 2nd quarter, evidence of the inherent volatility in small and medium sized companies.

Q2 was another quarter of strong stock picking as witnessed by our Sharpe ratio of over 4. Both our Alpha long and Alpha short books were profitable in the quarter. The fund continued to perform well in down markets as witnessed by our daily downside capture ratio of approximately 0%. The daily correlation of the fund remained very low to the overall market (correlation of 0.16 vs the SP500 in Q2) and annualized daily volatility of the fund remains within our expectation of 5-8% since the beginning of the year.

Statistical Analysis

	2nd Quarter 2014			Year-to-date 2014			Strategy Inception-to-Date		
	Alpha II	S&P500	R2000	Alpha II	S&P500	R2000	Alpha II	S&P500	R2000
Statistical Analysis									
Annualized Deviation of Daily Returns	7.0%	9.4%	16.2%	6.2%	10.7%	16.4%	7.0%	11.7%	16.0%
Sharpe Ratio based on Daily Returns	**4.2**	2.0	0.4	**5.1**	1.1	0.3	3.3	1.6	1.3
Strategy Correlation vs.		**0.16**	**0.34**		**0.09**	**0.21**		0.33	0.36
Up Market Analysis									
Number of Up Days	39	40	36	75	72	69	371	351	336
Largest Daily Gain	1.3%	1.1%	2.4%	1.3%	1.5%	2.7%	2.7%	2.5%	2.9%
Strategy % Up Capture		41.4%	27.4%		27.6%	21.3%		31.8%	21.3%
Down Market Analysis									
Number of Down Days	24	23	27	49	52	55	255	275	290
Largest Daily Loss	(0.8%)	(2.1%)	(2.8%)	(0.8%)	(2.3%)	(3.2%)	(1.6%)	(2.5%)	(3.8%)
Largest Draw Down from Peak	(2.1%)	(4.0%)	(8.1%)	(2.1%)	(5.8%)	(9.3%)	(6.5%)	(9.9%)	(12.9%)
Strategy % Down Capture		**0.6%**	**2.4%**		**(16.5%)**	**(6.3%)**		4.7%	1.1%

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Portfolio Positioning

As a reminder to investors, the Alpha fund generally seeks to maintain portfolio net dollar exposure between +10% and -10% and net beta exposure between +0.1 and -0.1. The goal of the fund is not to "time the market" but to maintain an exposure level close to zero (within a reasonable band) allowing the return stream of the fund to be the alpha generation from our bottom up stock picking process. The net exposure of the Fund, derived from the level of bottom-up opportunities we observe, varied within our expected normal bands: peaking at 9.8% post the April market selloff, and ended the quarter -4.5% post the strong rally in the market in May/June.

We use our gross exposure level, typically between 100 and 170% gross, to control volatility and it also represents the amount of Alpha long and Alpha short ideas that meet our high target return threshold at any given time. In periods where alpha generating opportunities are scarce, our gross exposure will drift downwards. Conversely, in periods where alpha generating opportunities are abundant, our gross exposure will drift higher. In general we are not in favor of excessive leverage as we feel there is always a remote possibility to get both sides of the book wrong (longs go down and shorts go up). By limiting our use of leverage (the maximum potential gross exposure is 230% as per our offering memorandum), we can minimize the risk of drawdowns in those inevitable periods of underperformance and allow ourselves the flexibility of redeploying unused capital in compelling opportunities. In Q2 our gross exposure hit its low point at 119.6% in early April as profitable Alpha longs were sold and many profitable Alpha shorts were covered. It thereafter peaked at 160.6% at the end of May as the volatility experienced earlier in the quarter led to many new investment ideas. As of the end of June the gross exposure of the Fund was 151.4%.

Strategy Breakdown

	Mar-31	Q2 Avg.	Jun-30	YTD Avg.
Pair Trade	0.0%	3.2%	5.0%	1.6%
Hedge	42.7%	57.0%	64.6%	53.1%
Alpha Long	65.6%	70.2%	72.2%	66.8%
Alpha Short	21.3%	13.5%	9.6%	14.5%

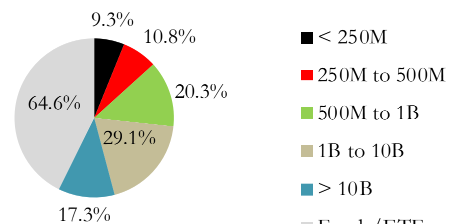
Market and Beta Exposure

	Mar-31	Q2 Avg.	Jun-30	YTD Avg.
Gross Long	65.6%	72.2%	73.4%	67.8%
Gross Short	(64.0%)	(71.8%)	(78.0%)	(68.2%)
Net	1.6%	0.4%	(4.5%)	(0.4%)
Total Gross	129.6%	143.9%	151.4%	135.9%
Net Raw Beta	0.02	0.05	-0.01	0.02

Number of Positions by Market Cap (Period End)

	# of Longs	# of Shorts	Total
< 250M	8	0	8
250 to 500M	11	0	11
500M to 1B	14	1	15
1B to 10B	20	10	30
> 10B	4	4	8
ETF Hedges	0	6	6
Total	**57**	**21**	**78**

Market Cap Breakdown (Period End)



Total Gross Exposure = 151.4%

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Strategy Gross Attribution

	Q1	Q2	2014 YTD
Pair Trade	0.0%	(0.2%)	(0.2%)
Hedge	(0.2%)	(3.7%)	(3.9%)
Alpha Long	6.9%	10.6%	17.5%
Alpha Short	0.6%	0.1%	0.7%

Quarterly Portfolio Attribution

During the quarter 34 individual names contributed more than 10bps to overall returns with 8 of these being new positions that entered the portfolio during the 2nd quarter. The Fund again witnessed strong contribution from our higher conviction positons with 11 names contributing more than 50bps each to overall return. Our Alpha longs performed exceptionally well in Q2 generating 10.6% gross return on an average gross exposure of 70.2%. Despite market returns being positive our Alpha short book also generated positive returns for the quarter contributing 10bps on an average gross exposure of 13.5%. Our hedges cost us 3.7% on an average gross exposure of 57% while our Pair Trades cost us 20bps during the quarter.

The major contributors to performance in Q2 were the Energy Sector (+2.6%), the Consumer Discretionary Sector (+1.4%) and the Information Technology Sector (+1.0%). No sectors were a meaningful source of losses.

Net Exposure

	Mar-31	Q2 Avg.	Jun-30
Cons. Discr.	5.4%	8.1%	9.6%
Cons. Staples	(0.8%)	(2.1%)	(2.6%)
Energy	(4.2%)	(10.7%)	(14.3%)
Financials	3.3%	(0.9%)	(3.4%)
Health Care	(5.4%)	(3.9%)	(4.4%)
Industrials	(3.7%)	(3.3%)	(4.8%)
IT	8.3%	10.0%	10.4%
Materials	(1.5%)	2.7%	4.1%

Sector Gross Attribution

	April	May	June	Q2
Cons. Discr.	0.7%	1.2%	(0.4%)	1.4%
Cons. Staples	0.0%	(0.0%)	(0.1%)	(0.1%)
Energy	1.8%	1.8%	(0.9%)	2.6%
Financials	0.2%	(0.1%)	(0.1%)	(0.1%)
Health Care	0.2%	0.4%	(0.1%)	0.5%
Industrials	(0.2%)	0.3%	0.4%	0.4%
IT	(1.0%)	1.0%	1.0%	1.0%
Materials	0.1%	(0.1%)	0.5%	0.5%

Energy

Energy was our best performing sector in the quarter contributing 2.6% to total return. We maintained a negative net exposure of -10.7% to the sector in the quarter as we had high conviction that many energy names had run too far too fast in 2014. Despite losing money on our short positions, different high conviction long ideas more than compensated for the period.

Our best stock was Goodrich Petroleum which contributed 282bps to the Fund. Goodrich is a good example of our patient approach to investing as we had followed the company since 2002 while never owning it. Through the years we had developed a strong relationship with management and a deep understanding of their asset base while waiting for the right opportunity to buy or sell the stock. In 2013 we felt that their emerging Tuscaloosa Marine Shale play had significant potential to transform the company. But, as it is often the case with early stage discoveries, the well results were scrutinized intensely leading to overreaction from the street to both good and bad results. In late March the stock had corrected from the high $20's earlier in 2013 to the $12 -$14 level and, after meeting the CEO, we concluded that the company had turned the corner with a higher probability of profitably coming from their next round of well results. Subsequent to our purchase, the street came around to our view and the stock jumped over 100% in less than 3 months and we subsequently trimmed our position.

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Our worst performing stock in the group was American Eagle Energy which cost us 38bps after disappointing well results were released. We subsequently sold the position as our thesis was no longer valid.

Consumer Discretionary

Consumer Discretionary was our 2nd best performing sector in the second quarter and our net exposure averaged 8.1% for the period. Following the first quarter, after many of the consumer focused names had sold off, we found several opportunities on the long side which rapidly contributed strongly.

Our top performing stock was Conn's Inc. which added 64bps to the fund. Conn's is a high growth retailer in the southern U.S. that offers its customers credit and access to products that they may otherwise not be able to purchase. Earlier this year the stock fell dramatically from $80 to the low $30s on concerns around the credit quality of their loan book. Having followed and owned the stock for over 8 years in our long-only platform, we were rapidly able to conclude that it was a major overreaction and a strong buying opportunity given our target price of $52 by next year. We purchased the stock in the low $30's and it rapidly recovered to the high $40s where we trimmed back on our position.

Our worst performing stock in the sector was a short position in Hanesbrands Inc. which lost 38bps in the quarter post an unexpected accretive acquisition from the company. The stock was subsequently covered.

Information Technology

The information technology sector was another strong sector for the fund in the second quarter contributing 1.0% to the overall return. We maintained a positive exposure to the sector of 10.0% for the period as we felt there was good value in the group relative to the overall market. Our top contributing stocks in Q2 were RealD Inc. which contributed 91bps after a strong Q1 report.

Our worst performing stock was ServiceSource which cost the Fund 93bps. Having followed the company since its IPO in 2011, we made money owning the stock in 2013 and subsequently sold it as it had reached fair value. In mid-April of this year we met the management team and concluded that business was turning the corner with new software sales potentially gaining serious traction. Furthermore, our fundamental analysis and discussions with local sell-side & buy-side relationships familiar with the company increased our conviction to enter the position. In early May the company announced Q2 results well below the street forecasts and a major restructuring of the business. As this event brought significant changes to our thesis and as our stop loss triggers were hit we exited the position.

3rd Quarter 2014 Outlook

As we enter the 3rd quarter, we are increasingly watchful for a potential correction in the market. While our bottom up company research points to a relatively healthy U.S. economy, valuations in the market have expanded to a point where it is becoming increasingly more difficult to uncover Alpha long ideas. Our process is predicated on the availability of investment ideas meeting our high return thresholds for Alpha longs (30-50% upside). Although our deep research team and broad network allows us to uncover many new opportunities every year, our fundamental risk management process requires us to remain on the sidelines or reduce our exposure if we simply cannot uncover enough companies with compelling risk adjusted returns with strong near-to-medium term catalysts.

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Although more and more stocks are beginning to show up on our radar screen as potential Alpha shorts (meeting our 20-30% return threshold), we need to see a catalyst present which will put pressure on the prices on these companies before entering into new short positions. The strong business and earnings growth trend, as well as the inexpensive debt financing environment and strong merger and acquisition activity, favors patience in deploying capital to new short ideas. We will continue to be diligent in our research and will pick our spots on the short side until these forces lessen.

Therefore, based on the current availability of Alpha longs and shorts, we feel comfortable to run at a lower gross exposure with a neutral to slightly negative net exposure until we see better opportunities arising. At any moment, these new opportunities could arise for several reasons, the main ones being a further acceleration in the U.S. economy, strengthening our sales and earnings forecast, or through a devaluation of certain segments of the market.

Over the last 3 months, our 9 person investment team has traveled the U.S. extensively doing more than 500 management meetings with publically traded companies. This research process, while very demanding, is the lifeblood of our future alpha generation and a necessity to our investment process. As the market provides us opportunities we will capitalize to get both long and short these companies generating alpha to our investors. We will continue to remain true to our discipline of capital preservation, low market exposure, low correlation to the overall market and alpha generation through our 54+ year old bottom up stock picking process. While we are confident to find great opportunities in this less efficient market, we believe that protecting our investors from potential market drawdowns will lead to superior risk adjusted returns over the market cycle.

Thank you for your confidence,

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Glossary of Terms

- Alpha longs: An investment strategy which involves taking long positions in stocks that are expected to increase in value by 30 to 50% over 3 to 18 months.

- Alpha shorts: An investment strategy which involves taking short positions in stocks that are expected to decrease in value by 20 to 30% over 3 to 18 months.

- Short positions: The sale of a borrowed security, with the expectation that the asset will fall in value and the re-purchase will result in a positive investment result.

- Pair trades: An investment strategy whereby an initial investment is made either long or short with a corresponding direct offset, or hedge, against the primary risk of the initial investment.

- Hedges: Hedging is the practice of taking a position in one market to offset and balance against the risk adopted by assuming a position in a contrary or opposing market or investment.

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Notes & Disclaimers

- Performance figures reported from January 1st 2014 onwards represent the US$ performance of the Formula Growth Alpha Fund (the "Fund"). Prior returns represent the US$ performance of the Formula Growth Alpha II L.P. and are based on an investment in the Fund made on January 1, 2012, the date of the Strategy'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.
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