

Highlights:

- ◆ Alpha shorts, pair trades and hedges contributed positively for the quarter;
- ◆ The largest drawdown for the Fund was 2.2% versus 8.8% for the Russell 2000;
- ◆ Volatility remained subdued in the fund with an average of 5.3% over the quarter, within our historical band of 5 to 8%.

November 11, 2014

Formula Growth Alpha Fund

3rd Quarter 2014 Results

Dear Investors,

Quarterly Review

In a highly volatile U.S. small to mid-cap market, as witnessed by the 7.4% decline for the quarter by the Russell 2000, the Alpha strategy managed to preserve capital in the 3rd quarter with a net return of -1.5%. For the first time in several quarters the market was much more balanced allowing us to make money on good short ideas without having to fight a unidirectional upward biased market.

During the quarter the fund continued to show excellent protection in declining markets as witnessed by our downside capture of only 5.2% vs the Russell 2000 and 15.1% vs. the SP500. Our correlation to the overall market remained quite low at only 15.3% to the SP500 and 26.6% to the Russell 2000.

In conjunction with the large drawdown of small and mid-cap stocks in the U.S. (-8.8% for the Russell 2000), our Alpha longs were unprofitable in the quarter losing 6.9%. This loss was almost entirely offset by strong contributions from our Alpha shorts (+2.1%), pair trades (+0.7%) and our hedges (+3.0%).

Statistical Analysis

	3rd Quarter 2014			Year-to-date 2014			Strategy Inception-to-Date		
	Alpha	S&P500	R2000	Alpha	S&P500	R2000	Alpha	S&P500	R2000
Statistical Analysis									
Annualized Deviation of Daily Returns	5.3%	9.4%	13.6%	6.0%	10.3%	15.5%	6.8%	11.5%	15.8%
Sharpe Ratio based on Daily Returns	(1.2)	0.1	(2.1)	2.9	0.7	(0.5)	2.9	1.4	0.9
Strategy Correlation vs.		0.15	0.27		0.11	0.23		0.32	0.36
Up Market Analysis									
Number of Up Days	33	35	32	108	107	101	404	386	368
Largest Daily Gain	0.8%	1.2%	1.6%	1.3%	1.5%	2.7%	2.7%	2.5%	2.9%
Strategy % Up Capture		6.4%	1.2%		21.3%	16.0%		30.1%	20.0%
Down Market Analysis									
Number of Down Days	31	29	32	80	81	87	286	304	322
Largest Daily Loss	(1.0%)	(2.0%)	(2.3%)	(1.0%)	(2.3%)	(3.2%)	(1.6%)	(2.5%)	(3.8%)
Largest Draw Down from Peak	(2.2%)	(3.9%)	(8.8%)	(2.3%)	(5.8%)	(9.3%)	(6.5%)	(9.9%)	(12.9%)
Strategy % Down Capture		15.1%	5.2%		(6.1%)	(2.3%)		5.6%	1.5%
Sortino Ratio (MAR = 8%)	(2.82)	(0.39)	(3.24)	2.56	0.46	(1.04)	2.90	1.45	0.83

Portfolio Positioning

During the quarter, net exposure of the Alpha Strategy remained within its typical band of +10% to -10%, varying from a low of -10.9% on July 3rd to a peak of +7.5% on September 24th. Our gross exposure also remained well within our normal range fluctuating between a high of 146.5% on July 1st and low of 98.6% on August 7th before exiting the quarter at 121.6%. As a reminder, the strategy does not use high levels of financial leverage. Excessive leverage can amplify periods of poor stock picking and lead to significant losses. For reference, the Offering Memorandum of the strategy prevents us from going beyond a gross leverage of 230%. The strategy has never had a gross exposure above 165% since inception, which is typically much lower than traditional market neutral strategies which may employ leverage from 300-400%.

Strategy Breakdown

	Jun-30	Q3 Avg.	Sep-30	YTD Avg.
Pair Trade	5.0%	2.6%	0.0%	1.9%
Hedge	64.6%	44.6%	42.9%	50.2%
Alpha Long	72.2%	56.0%	61.3%	63.2%
Alpha Short	9.6%	14.0%	17.4%	14.3%

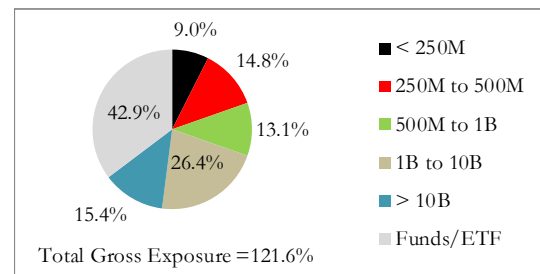
Market and Beta Exposure

	Jun-30	Q3 Avg.	Sep-30	YTD Avg.
Gross Long	73.4%	57.1%	61.3%	64.2%
Gross Short	(78.0%)	(59.9%)	(60.3%)	(65.4%)
Net	(4.5%)	(2.8%)	1.0%	(1.2%)
Total Gross	151.4%	117.1%	121.6%	129.6%
Net Raw Beta	-0.01	0.07	0.19	0.03

Number of Positions by Market Cap (Period End)

	# of Longs	# of Shorts	Total
< 250M	8	0	8
250 to 500M	14	0	14
500M to 1B	10	0	10
1B to 10B	14	9	23
> 10B	3	4	7
ETF Hedges	0	6	6
Total	49	19	68

Market Cap Breakdown (Period End)



Strategy Gross Attribution

	Q1	Q2	Q3	2014 YTD
Pair Trade	0.0%	(0.2%)	0.7%	0.5%
Hedge	(0.2%)	(3.7%)	3.0%	(0.9%)
Alpha Long	6.9%	10.6%	(6.9%)	10.1%
Alpha Short	0.6%	0.1%	2.1%	2.8%

Quarterly Portfolio Attribution

During the quarter, 3 names contributed more than 50bps and 15 other individual names contributed over 10bps to gross return. 8 of those 18 names originated from the Alpha Short book. Of the 18 names, 6 were new names that entered the portfolio in Q3. During the quarter our Alpha Longs lost 6.9%, which was offset by gains of 2.1% in Alpha Shorts, gains of 0.7% in Pair trades and gains of 3.0% from hedges. For the full year, three of four investment strategies have contributed positively.

The major contributors to performance in the 3rd quarter were the Health Care Sector which added 0.9% to gross returns, while the Energy Sector lost 1.3% and the Information Technology Sector which lost 2.3%.

Net Exposure					Sector Gross Attribution				
	Jun-30	Q3 Avg.	Sep-30	YTD Avg.		July	August	September	Q3
Cons. Discr.	9.6%	2.2%	1.3%	4.7%	Cons. Discr.	(0.2%)	0.4%	(0.4%)	(0.2%)
Cons. Staples	(2.6%)	(2.8%)	(3.6%)	(2.7%)	Cons. Staples	0.1%	0.0%	0.1%	0.3%
Energy	(14.3%)	3.6%	5.3%	(2.7%)	Energy	(0.8%)	0.8%	(1.3%)	(1.3%)
Financials	(3.4%)	(5.8%)	(4.7%)	(2.0%)	Financials	0.8%	(0.2%)	0.3%	0.8%
Health Care	(4.4%)	(4.6%)	(5.6%)	(4.6%)	Health Care	0.6%	(0.0%)	0.4%	0.9%
Industrials	(4.8%)	(2.6%)	(0.4%)	(3.1%)	Industrials	0.1%	0.4%	0.2%	0.7%
IT	10.4%	4.7%	2.8%	7.2%	IT	(2.2%)	(0.5%)	0.4%	(2.3%)
Materials	4.1%	3.1%	6.3%	2.2%	Materials	0.1%	0.7%	(0.9%)	(0.1%)

Healthcare

The healthcare sector was our best performing sector for the quarter as we maintained a negative sector exposure of -4.6% in Q3. Our best performing stock was AMN Healthcare which contributed 36bps in the period. Given the increasing utilization of the U.S. Healthcare system as a result of increased health insurance to lower income Americans, we felt that AMN as the leading Nursing Staffing company in the U.S. was well positioned to benefit.

Energy

The energy sector lost 1.3% in the third quarter, we maintained a slightly positive exposure to the energy sector in Q3 of 3.6%. The sector sold off sharply towards the end of Q3 as Crude prices fell from over \$100 per barrel to \$90 by the end of the third quarter. Several profitable Alpha shorts were not enough to offset the losses on our Alpha longs in the quarter. Our top contributor was a short position in Continental Resources which contributed 38bps in the quarter, our biggest loss came from a long position in Goodrich Petroleum which cost the fund 141bps in the quarter. After having realized strong gains in Goodrich Petroleum earlier in the year, the position was sold as it rallied to the high 20's, the position was re-purchased in the mid-teens on the large sell-off in the group. Unfortunately, we added too quickly as the company is currently developing an early stage emerging oil play. The stock price action proved to be very sensitive to lower crude oil prices which occurred late in the quarter. Despite the large pullback in the name, Goodrich Petroleum has contributed 189bps YTD to overall performance.

Information Technology

The Information Technology sector was our worst performing sector in Q3 costing us 2.3% of return. We maintained a positive exposure to the sector of 4.7%. Our best performing stock was Move Inc. which contributed 63bps in the quarter as it was taken out at a 40% premium. Our worst performing stock was RealD costing us 189bps in Q3, which brought its YTD contribution to -14bps, as the stock sold off after a string of solid quarters as the market anticipated a weakening 3D movie slate. However, RealD is a big winner so far in Q4 as they received a take-out offer at a 30% premium from an activist investor who owns just under 10% of the shares.

4th Quarter 2014 Outlook

As we enter Q4, we have a mixed view of the markets. Valuations of most stocks look fair to us, yet the U.S. economy continues to be stable and should be able to maintain its moderate growth rate going forward. Outside of the energy sector, our higher conviction idea flow is low and thus we are running with a relatively low gross exposure of 122% until more ideas surface. We see the pending end of quantitative easing and the increased volatility of the small and mid-cap names in Q3 as a potential precursor to a return of a higher volatility environment. Thus far in 2014, equity markets had been quite complacent with very low volatility levels until recently.

Our fund will continue to stay true to our discipline of alpha generation via bottom up stock picking on the long and short side while seeking to maintain low volatility, low correlation and downside protection for our investors. Our returns are always driven by the quality of our long and short ideas and not by market exposure. There will be periods of over or under performance as with any bottom-up focused strategy, yet these periods will tend to be un-correlated to overall market performance. This is mainly due in part to our minimal exposure to the overall markets or any specific sub-sector. These attributes make the Alpha strategy an ideal fund to add to an investor's portfolio to diversify expected return streams and improve risk adjusted returns.

Thank you for your confidence,

Formula Growth

- ♦ 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.

- ◆ 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.
- ◆ 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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