

Formula Growth Alpha Fund

2nd Quarter 2016 Results

Highlights:

- ◆ For Q2 2016 the FG Alpha Fund had a net return of US\$ +0.3% while the S&P500 and the Russell 2000 gained US\$ +2.5% and US\$ +3.8% respectively;
- ◆ Since January 2015, the equity markets have become much more volatile. During this period, the FG Alpha Fund had a cumulative net return of US\$ +9% while the S&P500 TR gained US\$ +5% and the Russell 2000 TR lost US\$ -2%;
- ◆ On Brexit day (June 24th), the FG Alpha fund once again showed its ability to preserve capital during periods of extreme market volatility, declining only -0.15% VS -3.6% for the S&P 500 and -3.8% for the Russell 2000.

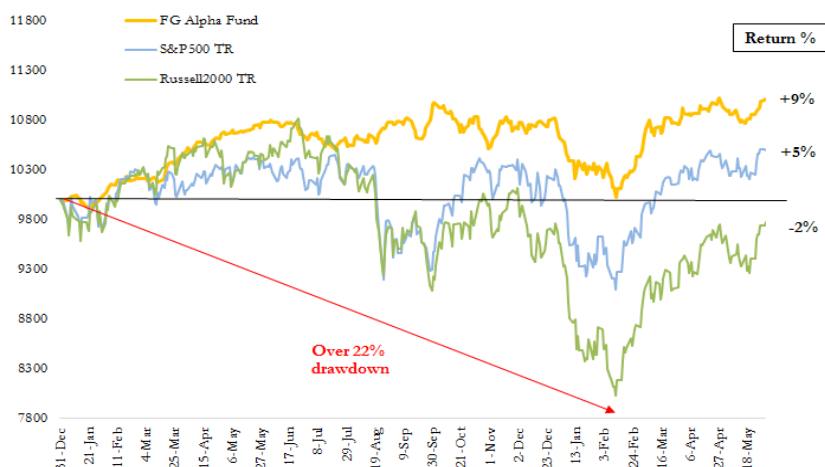
Dear Investors,

During the second quarter of 2016 the FG Alpha Fund had a net return of US\$ +0.3% while the S&P500 TR and the Russell 2000 TR gained respectively US\$ +2.5% and US\$ +3.8%. Since the inception of the strategy in January 2012, the FG Alpha Fund generated positive performance during 14 of 18 quarters and achieved its objective to return 5-7% per year (annualized return of US\$ +10%) while maintaining a neutral net dollar exposure (historical average dollar net exposure of -1%) and a very low daily correlation to the S&P500 TR (historical correlation of 0.2).

The equity markets once again experienced a rise in volatility as the late-June U.K. vote to leave the European Union unleashed more political and economic uncertainty on the markets. While we believe that the U.S. economy continues to face low odds of a recession in the near term, the more mature U.S. business cycle and the expectation of continued political and policy uncertainty should lead to additional periods of elevated market volatility.

The U.S. equity market has been challenged for some time now. Over the past 12 months, the S&P500 TR has returned a meager US\$ +5% for investors while the Russell 2000 TR is down US\$ -2% over the same period. This performance of the S&P500 TR was achieved with many episodes of volatility which continues to highlight the need for risk mitigation tools in investors' portfolios: it suffered a drawdown of over US\$ -11% in August-September 2015 (US\$ -12% for the Russell2000 TR), then came a loss of US\$ -11% in January-February (US\$ -16% for the Russell2000 TR) and finally a loss of US\$ -6% in June 2016 (US\$ -9% for the Russell2000) as the U.K. voted to leave the European Union. Actually, on June 24th "Brexit" day, the S&P500 TR lost US\$ -3.6%, the Russell 2000 TR lost US\$ -3.8% while the FG Alpha Fund was essentially flat (US\$ -0.15%). Although all of these volatility episodes were short lived, the slow global growth that we are observing and the turbulent times in which we live will likely create more spells of volatility in the future. In this difficult market environment the FG Alpha Fund gained US\$ +7.1% in 2015 and is up US\$ +1.2% in 2016.

Daily performance net of fees of the FG Alpha Fund since January 2015



In this very challenging period for small cap equities the FG Alpha Fund generated a positive return, mitigated losses and maintained a very low daily return correlation to the equity market of 0.2.

Being fundamental bottom-up investors for over 56 years we believe that important value added (alpha) can be achieved by actively talking to company management teams and assessing if we should go long or short the stock. In our research process we focus heavily on valuation and most importantly the future direction of the earnings stream versus market expectations. We currently find the US equity market quite intriguing (and frustrating) as we are observing important dislocations in valuation between various types of stocks. On the one hand we have the slow growth boring businesses that are trading at very expensive multiples driven by ETF fund flows, constant search for yield or a relentless search for “safety” by investors. On the other hand you have the US consumer driven and more economic sensitive industries like autos, restaurants, retailers and other stocks that compose the majority of small cap US equities which are very cheap and often overlooked by most investors. Specific catalysts such as buybacks, special dividend activity or a takeover are often necessary for investors to look at these cheap stocks and there are indeed many of our stocks that benefitted from such news recently (MCFT, RDN, MIXT, GM, STAY, TOWR, MEI, GME). Patience is however required.

We believe that perceived “safe” stocks can in fact be quite risky if investors overpay for their earnings, while stocks deemed riskier with more variability in the earnings structures can be very “safe” investments if purchased at the right price and the right time. As always we believe that companies ultimately will be priced on bottom up fundamental value. We are currently seeing numerous situations where companies are materially under or overvalued which leads to opportunities for investors who have the patience to stay the course.

Q4 Review: Portfolio Positioning & Quarterly Attributions

During Q2, the FG Alpha Fund was on the defensive side of its neutral exposure to the market with an average net exposure of -8% and an average net beta exposure of 0.07. We ended the quarter with a net dollar exposure of -11.5% and a net beta of 0.10. For the quarter, our Alpha Longs generated +1.8% while our Alpha Shorts lost -1.4% and our portfolio Hedges lost -0.1%.

Please see below a few positions that were meaningful contributors for the FG Alpha Fund during the quarter:

Method Electronics Inc. (NYSE: MEI)

Method is a technology company that operates principally in the automotive, interface, power product segments. MEI was our second best performer in Q2 generating +58bps of return for the fund. Having followed the company for over 3 years and met management on several occasions, we initiated a position in the summer of 2015 after the stock suffered a significant pullback. Through many company interactions and analyst discussions, we concluded that the base business was beginning to improve and that their new promising product called Dabir Surfaces (which avoids bedsores for hospital patients) undergoing significant trials at various hospitals could be a strong catalyst for the stock to improve. As the initial results look promising and the interest level among hospitals appeared very high we recognised that the opportunity for this product was strong and could become a major product line for the company. The stock began its rise after the company reported strong fourth quarter results with a favorable outlook largely based on their Dabir opportunity. We continue to own the stock as the business is improving.

Ring Energy Inc. (NYSE: REI)

Ring Energy is a company that we have had a long history with. Its management team were the founders of another EP company (Arena Resources) that we purchased in the early 2000s when the company had market cap of \$150MM. Arena Resources was thereafter acquired in 2010 for US\$ 1.6BB resulting in large gains for the investors of our FG Fund over that holding period. The same management team moved on in 2011 to start Ring Energy (REI) which led us to follow REI very closely from its first days on the public markets. Earlier this year the company discussed the exciting potential to drill its wells horizontally vs. vertically resulting in an uplift of its drilling economics from 20% to over 120%. Given our knowledge of the story we rapidly recognized

the potential and built a large position at a price between \$5.50 and \$6.50 a share. Our analysis led us to believe in a potential upside to \$12 and beyond if their program was successful. As the market caught on to this new drilling opportunity the stock rallied towards \$10 a share where we began to take some profits. We remain holders of the stock as we see the potential for a repeat of the Arena Resources story. In Q2 REI contributed 127bps to the overall return of the Fund.

Outlook

We continue to find stocks that we believe are materially under and overvalued but patience is required as the current momentum in some pockets of the market is quite strong while others areas of the market continue to be neglected. We see great potential rotating into certain undervalued longs in less favored sectors of the market and the likely unwinding of overvalued ETF driven bond proxy stocks on the short side. We expect volatility to remain high which typically leads to healthy level of mispricing and investment ideas. We are confident that the market neutral approach of the FG Alpha Fund is well positioned to generate value added returns going forward regardless of the market environment.

Thank you for your support.

Formula Growth

Market and Beta Exposure

	Mar-31	Q2 Avg.	Jun-30	2016 Avg.
Gross Long	49.0%	46.2%	49.5%	53.9%
Gross Short	(58.3%)	(54.2%)	(61.0%)	(56.0%)
Net	(9.3%)	(8.0%)	(11.5%)	(2.1%)
Total Gross	107.3%	100.4%	110.5%	109.9%
Net Beta	-0.10	0.07	0.10	0.07

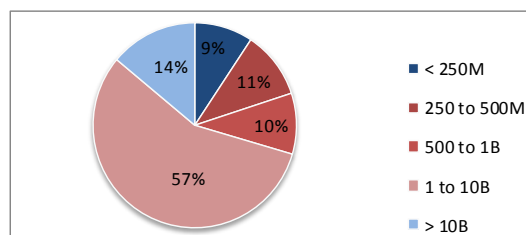
Strategy Exposure Breakdown

	Mar-31	Q2 Avg.	Jun-30	2016 Avg.
Pair Trade	0.0%	0.0%	0.0%	0.0%
Hedge	32.4%	28.3%	32.0%	28.3%
Alpha Long	47.9%	48.9%	49.5%	54.1%
Alpha Short	24.3%	28.0%	28.9%	21.2%

Number of Positions by Market Cap (Period End)

	# of Long	# of Short	Total
< 250M	12	0	12
250 to 500M	10	0	10
500 to 1B	7	1	8
1 to 10B	23	25	48
> 10B	2	6	8
Funds/ETF	0	4	4
Total	54	36	90

Market Cap Exposure Breakdown (Period End)



Strategy Gross Attribution

	Q1	Q2	2016
Pair Trade	0.0%	0.0%	0.0%
Hedge	(0.4%)	(0.1%)	(0.5%)
Alpha Long	2.2%	1.8%	4.0%
Alpha Short	(0.4%)	(1.4%)	(1.8%)

Strategy Gross Attribution

	2012	2013	2014	2015	2016
Pair Trade	0.4%	1.0%	0.0%	0.1%	0.0%
Hedge	(4.7%)	(12.0%)	(1.3%)	2.8%	(0.5%)
Alpha Long	28.9%	30.2%	4.6%	2.4%	4.0%
Alpha Short	1.6%	(2.2%)	0.5%	3.2%	(1.8%)

Net Sector Exposure

	Mar-31	Q2 Avg.	Jun-30	2016 Avg.
Cons. Discr.	4.3%	4.9%	4.0%	7.1%
Cons. Staples	-7.3%	-7.7%	-8.8%	-6.6%
Energy	-1.2%	0.4%	1.0%	0.1%
Financials	-1.1%	-2.2%	-3.3%	-3.2%
Health Care	-2.4%	-1.9%	-2.5%	-2.1%
Industrials	-1.8%	-2.5%	-4.8%	1.0%
IT	1.2%	3.0%	3.2%	2.8%
Materials	0.3%	-0.7%	1.5%	-0.2%
Telecom.	-0.5%	-0.1%	0.5%	-0.1%
Utilities	-0.6%	-1.3%	-2.2%	-0.9%

Sector Gross Attribution

	Apr	May	Jun	Q2	2016
Cons. Discr.	0.2%	(0.6%)	-1.1%	(1.5%)	(0.1%)
Cons. Staples	0.1%	0.1%	-0.1%	0.1%	(0.2%)
Energy	0.3%	0.6%	0.3%	1.2%	0.7%
Financials	0.2%	(0.4%)	-0.5%	(0.7%)	(1.3%)
Health Care	(0.0%)	(0.0%)	-0.2%	(0.2%)	(0.4%)
Industrials	(0.6%)	0.5%	-0.2%	(0.3%)	(0.4%)
IT	0.4%	0.3%	0.4%	1.1%	1.5%
Materials	(0.2%)	0.4%	0.2%	0.4%	1.7%
Telecom.	(0.0%)	(0.0%)	0.2%	0.2%	0.2%
Utilities	(0.0%)	(0.0%)	0.0%	(0.0%)	(0.0%)

- ♦ 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.
- ♦ Sharpe ratio: The ratio measures the excess return (or risk premium) per unit of deviation in an investment asset or a trading strategy, typically referred to as risk.
- ♦ Batting average: number of positions on which we make money divided by the total number of positions we held during the period
- ♦ Slugging average: average contribution of positions on which we make money divided by the average contribution of positions on which we lose money for the period

- ◆ 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.
- ◆ This document is intended only for the person to whom it has been delivered by Formula Growth Ltd. This document is provided for informational purposes only, may not contain certain material information about the Fund, and is not an offer to sell or a solicitation of an offer to buy any interest or shares in the Fund. Any investment decision in connection with the Funds should be made based on the information contained in the Memoranda. This document is the property of Formula Growth Ltd., is strictly confidential and may not be reproduced or redistributed nor may any of its contents be disclosed to any other person under any circumstances. This document is not intended to be, nor should it be construed as, financial, legal, tax, accounting or investment advice or recommendations.