

Formula Growth Alpha Fund

Third Quarter 2016 Investment Results

Highlights:

- ◆ For Q3 2016 the FG Alpha Fund had a net return of US\$ +5.6% while the S&P500 TR and the Russell 2000 TR gained US\$ +3.9% and US\$ +9.0% respectively;
- ◆ FG Alpha fund offered non correlated returns in Q3 generating positive performance during 24 of the 28 days of negative performance of the S&P500 TR;
- ◆ Despite the Fund's average net short exposure of -5.5% in 2016, the FG Alpha Fund has a year to date net return of US\$ +6.8% while the S&P500 TR and the Russell 2000 TR gained US\$ +7.8% and US\$ +11.4% respectively.

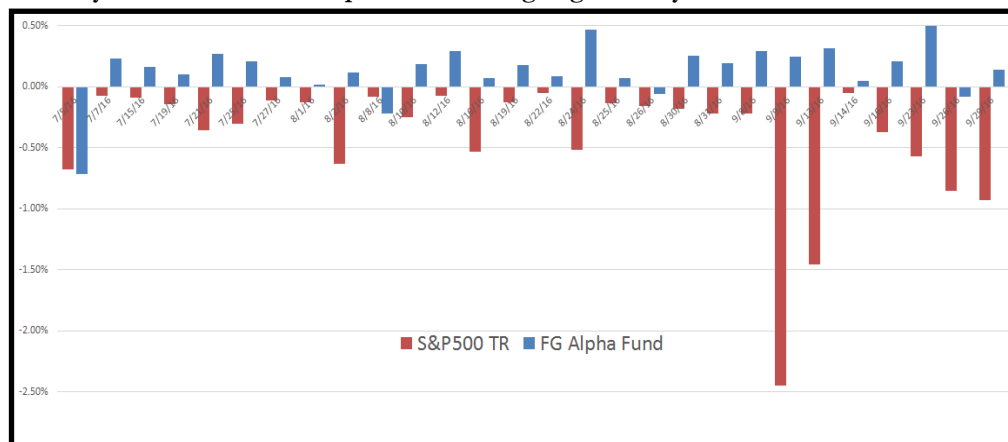
Dear Investors,

During the third quarter of 2016, the FG Alpha Fund had a net return of US\$ +5.6% while the S&P500 TR and the Russell 2000 TR gained respectively US\$ +3.9% and US\$ +9.0%. Since the inception of the strategy in January 2012, the FG Alpha Fund generated positive performance during 14 of 19 quarters and has achieved its objective return of 5-7% per year (annualized return of US\$ +10%) while maintaining a neutral net dollar exposure (historical average dollar net exposure of -2%) and a very low daily correlation to the S&P500 TR (historical correlation of 0.2).

As investor's fears dissipated following Brexit, the third quarter saw the S&P500 TR reach a new all-time high. This low volatility regime changed abruptly in early September on fears of a Fed rate hike, sending both equities and bonds down simultaneously for a few days. Once again the Fed passed on raising rates during its September meeting and the equity markets recovered. While we believe that the US economy continues to face low odds of a recession in the near term, we also feel that the more mature US business cycle and the continued political and policy uncertainty could lead to additional periods of elevated market volatility.

The FG Alpha Fund has a focus on capital preservation and low correlation to the US equity market. During the third quarter, the Fund performed specifically well when stocks and bonds were losing simultaneously. The graph below is a representation of the daily return of the FG Alpha Fund (blue) on days that the S&P 500 TR (red) had negative performance during the third quarter. As can be seen in the graph, the Fund performed quite well on days that the S&P500 TR struggled. In fact, the FG Alpha Fund had positive returns on 24 of the 28 days that the market return was negative, contributing significantly to the Fund's strong performance of the quarter.

Daily Returns of the FG Alpha Fund during negative days of the S&P500 TR Index



During the third quarter, the FG Alpha Fund had positive returns on 24 of the 28 days that the market return was negative, contributing significantly to the Fund's strong performance of the quarter.

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At Formula Growth we constantly strive to focus our energy and time in the areas of the market where we see the most opportunity, in order to find outsized return potential or “Alpha”. As a result, the amount of time and gross exposure we allocate to a given sector will be dependent on the number and quality of the opportunities we find. To illustrate, in 2009 we spent a large amount of time on the automotive and homebuilding sectors where we saw large return potential in early cycle recovery plays at very attractive valuations. Today, as these sectors have matured, we have a much lower gross exposure to both those sub-sectors. Another illustration is the many opportunities we saw in the consumer discretionary sectors as job growth accelerated and consumer financial health improved between 2011 and 2015. Today, the US equity market is relatively expensive and our fundamental bottom-up research process makes it increasingly difficult for our investment team to find good long ideas with sufficient near term upside. While we continue to find special situations, we remain nimble and like to look where few others are looking.

During 2014-2015 we noticed how extremely depressed the gold market had become with both valuation and sentiment hitting a multi decade low. We therefore got to work and had more than 300 face to face meetings with gold company management teams and attended several industry conferences. As a result, we were able to invest in 2 of the best performing gold names from 2014 to 2016 (Klondex Mines and Richmont Mines) while being short one of the worst performing gold/silver names in Q3 (First Majestic Silver). The sector was a strong performer in both 2015 and 2016 from a gross attribution standpoint contributing +2.3% in 2015 and +3.7% YTD in 2016. These multiple examples illustrate how we strive to remain flexible and open minded with our time allocation in order to find the next investment opportunities.

On the short side we currently see signs of a bubble forming in “defensive stocks” and thus we have allocated significant time to the short opportunities we see in that group of stocks. These “safe” or “low vol” stocks could be at risk due to their extreme valuation levels but also because of their sensitivity to interest rate hike fears. We believe that companies are ultimately priced according to their bottom up fundamental value. There are currently numerous situations where companies are materially overvalued offering strong expected returns on the short side for investors who have the patience to stay the course.

Q3 Review: Portfolio Positioning & Quarterly Attributions

During Q3, the FG Alpha Fund was on the defensive side of its neutral exposure to the market with an average net exposure of -12% and an average net beta exposure of 0.03. We ended the quarter with a net dollar exposure of -10% and a net beta of -0.07. Our gross exposure for the quarter was, on average 112%, similar to our average since the beginning of 2016. For the quarter, our Alpha Longs generated +9.7% while our Alpha Shorts cost -1.2% and our portfolio Hedges cost -1.9%.

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

Radian Group Inc. (NYSE: RDN)

Radian, a US based mortgage insurer, is a company we know well having bought the stock in 2012 on the back of an improving housing market, an increasing level of insurance issuance and declining credit losses. The stock had been a good contributor and we exited the position in 2013 after it had achieved our target price. For the next 3 years, Radian continued growing until mid-2015, when the stock sold off on investor fears that earnings had peaked. Our opinion earlier this year was that the housing sector was stronger than most believed and that given Radian’s improved balance sheet we could expect, for the first time in a long time, an aggressive buyback of their stock at very attractive levels. Radian generated 135bps of return in Q3 and we exited the position during the quarter as the stock approached our target price.

Formula Growth Alpha Fund

Third Quarter 2016 Investment Results

Apache Corporation (NYSE: APA)

Apache, a large energy producer in US, is slightly larger than our typical small to mid-cap stock but had all the qualities we look for. First, it was completely misunderstood by investors who had given up on the story after years of underperformance. Second, it was deeply undervalued by the market. Third, it had a major catalyst for re-rating; the unveiling of their new “stealth” play in the Permian basin. Having followed the majority of small and mid-cap energy production companies in the Permian Basin, we were very aware at how highly the market was valuing Permian acreage. As one of the largest acreage holders in the Permian Basin, we felt that APA was not getting credit for its large acreage position and that the stock was poised for a large re-rating once the company released additional disclosure. We started building a position in the third quarter at \$50 a share and increased the position when the company gave investors a detailed update on its “Alpine High” discovery in the Permian basin (NYC Barclays Energy Conference in September which we attended). We subsequently met the CEO in Montreal and following that meeting we increased our position as we felt that the valuation gap between APA and its peers would narrow. Our thesis was that this further disclosure by the company would give the market a better understanding of the upcoming wells, thus re-rating its valuation upward. We continue to see solid upside in APA and it remains a core position in the portfolio with a fair value of around \$80-\$90 per share. In Q3, APA contributed 60bps to overall returns.

Outlook

Our outlook has not changed, while on the long side there are fewer “fat pitches” we continue to work hard at finding the special situations that satisfy our highly demanding investment criteria. On the short side we find interesting opportunities, especially in the “safe” or “low vol” segments of the market. We however understand that patience will be required as the current momentum in these stocks is quite strong. The fourth quarter will likely be exciting with two Federal Open Market Committee meetings and a Presidential election possibly creating plenty of ups and downs. 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.

On a personal note, our great friend and partner Rodney McCollam retired from his role as Corporate Controller of the company on September 30th. However, he has agreed to act as a part time consultant through 2017 to ensure a smooth transition. Rodney has been with Formula since 2000, and he contributed enormously to the success of the firm during this period. We wish to acknowledge and thank him for the unique and valuable contribution he has made over these many years. His loyalty, stewardship, common sense and humour will be very much missed by the entire team at Formula Growth in Montreal, New York and Hong Kong. We wish him the very best and a fulfilling retirement.

Thank you for your support.

Formula Growth

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Third Quarter 2016 Investment Results

Market and Beta Exposure

| | Jun-30 | Q3 Avg. | Sep-30 | 2016 Avg. |
|-------------|---------|---------|---------|-----------|
| Gross Long | 49.5% | 49.9% | 52.7% | 52.3% |
| Gross Short | (61.0%) | (61.7%) | (62.7%) | -57.8% |
| Net | (11.5%) | (11.8%) | (10.0%) | -5.5% |
| Total Gross | 110.5% | 111.6% | 115.4% | 110.2% |
| Net Beta | 0.10 | 0.03 | -0.07 | 0.06 |

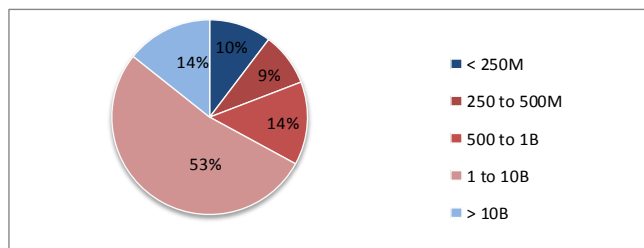
Strategy Exposure Breakdown

| | Jun-30 | Q3 Avg. | Sep-30 | 2016 Avg. |
|-------------|--------|---------|--------|-----------|
| Pair Trade | 0.0% | 0.0% | 0.0% | 0.0% |
| Hedge | 32.0% | 35.0% | 34.1% | 28.3% |
| Alpha Long | 49.5% | 47.8% | 52.7% | 54.1% |
| Alpha Short | 28.9% | 28.8% | 28.6% | 21.2% |

Number of Positions by Market Cap (Period End)

| | Long | Short | Total |
|--------------|-----------|-----------|-----------|
| < 250M | 9 | 0 | 9 |
| 250 to 500M | 9 | 0 | 9 |
| 500 to 1B | 9 | 3 | 12 |
| 1 to 10B | 22 | 19 | 41 |
| > 10B | 3 | 6 | 9 |
| Funds/ETF | 0 | 9 | 9 |
| Total | 52 | 37 | 89 |

Market Cap Exposure Breakdown (Period End)



Strategy Gross Attribution

| | Q1 | Q2 | Q3 | 2016 |
|-------------|--------|--------|--------|--------|
| Pair Trade | 0.0% | 0.0% | 0.0% | 0.0% |
| Hedge | (0.4%) | (0.1%) | (1.9%) | (2.4%) |
| Alpha Long | 2.2% | 1.8% | 9.7% | 13.7% |
| Alpha Short | (0.4%) | (1.4%) | (1.2%) | (3.0%) |

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% | (2.4%) |
| Alpha Long | 28.9% | 30.2% | 4.6% | 2.4% | 13.7% |
| Alpha Short | 1.6% | (2.2%) | 0.5% | 3.2% | (3.0%) |

Net Sector Exposure

| | Jun-30 | Q3 Avg. | Sep-30 | 2016 Avg. |
|---------------|--------|---------|---------|-----------|
| Cons. Discr. | 4.0% | 2.5% | 3.0% | 5.5% |
| Cons. Staples | -8.8% | (6.0%) | (4.9%) | (6.4%) |
| Energy | 1.0% | 0.5% | 0.2% | 0.2% |
| Financials | -3.3% | (4.2%) | (5.2%) | (3.5%) |
| Health Care | -2.5% | (2.0%) | (2.5%) | (2.1%) |
| Industrials | -4.8% | (9.5%) | (10.6%) | (2.6%) |
| IT | 3.2% | 4.2% | 1.7% | 3.2% |
| Materials | 1.5% | 3.5% | 8.6% | 1.1% |
| Telecom. | 0.5% | 0.6% | 0.4% | 0.1% |
| Utilities | -2.2% | (1.2%) | (0.7%) | (1.0%) |

Sector Gross Attribution

| | Jul | Aug | Sep | Q3 | 2016 |
|---------------|--------|-------|------|--------|--------|
| Cons. Discr. | 1.0% | 0.0% | 0.3% | 1.3% | 1.1% |
| Cons. Staples | 0.0% | 0.1% | 0.3% | 0.4% | 0.1% |
| Energy | 0.3% | 0.2% | 0.9% | 1.4% | 2.0% |
| Financials | 0.5% | 0.1% | 0.1% | 0.7% | (0.8%) |
| Health Care | (0.1%) | 0.0% | 0.0% | (0.1%) | (0.5%) |
| Industrials | 0.3% | -0.1% | 0.3% | 0.5% | (0.1%) |
| IT | 0.3% | 0.7% | 0.2% | 1.2% | 2.6% |
| Materials | (0.5%) | 1.5% | 1.0% | 2.0% | 3.5% |
| Telecom. | 0.0% | 0.0% | 0.1% | 0.1% | 0.3% |
| Utilities | 0.0% | 0.1% | 0.0% | 0.1% | 0.1% |

- ♦ 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 have a positive return divided by the total number of positions we held during the period.
- ♦ Slugging average: Average contribution of positions on which we have a positive return divided by the average contribution of positions on which we have a negative return 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.