FORMULA GROWTH LIMITED

Formula Growth Alpha Fund

Fourth Quarter 2016 Investment Results

Highlights:

- For Q4 2016 the FG Alpha Fund had a net return of US$ +1.4% while the S&P500 TR and the Russell 2000 TR gained US$ +3.8% and US$ +8.8% respectively;
- Despite maintaining an average net short exposure of -6% during 2016, the FG Alpha Fund generated a net return of US$ +8.4% while the S&P500 TR and the Russell 2000 TR gained US$ +12.0% and US$ +21.3% respectively;
- Over our 5 year history the FG Alpha Fund generated an annualized return of US$ +10.2%, with a low daily correlation to the S&P500 TR of only 0.2.

Dear Investors,

During the fourth quarter of 2016, the FG Alpha Fund had a net return of US$ +1.4% while the S&P500 TR and the Russell 2000 TR gained US$ +3.8% and US$ +8.8% respectively. Despite maintaining an average net short exposure of -6% during 2016, the FG Alpha Fund was able to exceed our target annualized return of 5% to 7% generating a net return of US$ +8.4% while the S&P500 TR and the Russell 2000 TR gained US$ +12.0% and US$ +21.3% respectively.

The surprise outcome of Donald Trump in the U.S. presidential election resulted in an equally unexpected stock market rally and bond market decline. Banks and industrial companies were favored due to the prospect of higher interest rates and the expectation of stimulus spending on infrastructure. The strong market rally in November and December had no impact on the FG Alpha Fund's performance given the fact that the fund runs with no exposure to the overall market. During the month of November our stock picking underperformed the market and thus we had a negative return of -0.8% while in December our stock picking was very strong and we finished the year generating a monthly return of +2.2%.

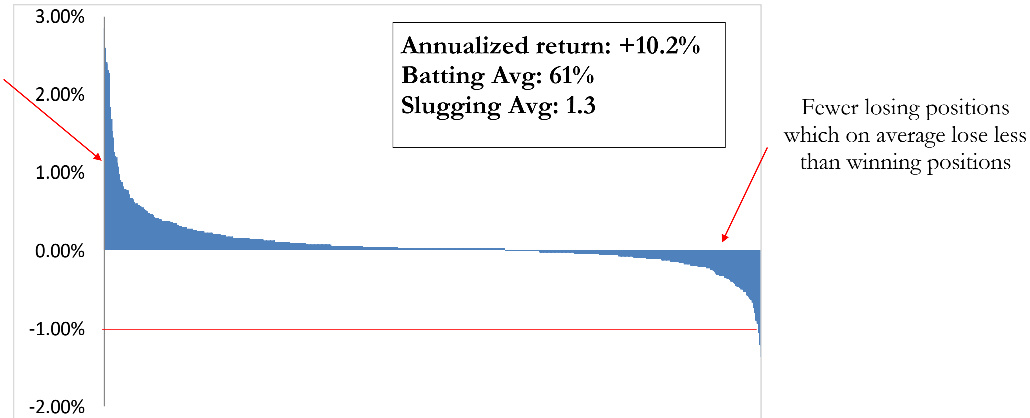
December 31st marked the fifth year anniversary of the FG Alpha Fund. As we reflect back on the past five years we are proud of what we have been able to accomplish yet cognizant of the need to constantly strive to improve. In creating the FG Alpha Fund, the idea was to offer our clients a lower volatility and lower correlation vehicle in a world where fixed income investments were generating very low yields. Our approach was to maintain the investment style Formula Growth perfected over the past 56 years and perform rigorous bottom up stock picking, harvesting the returns of small and mid cap U.S. companies. Our objectives were threefold: target a net annualized return of 5% to 7%, offer returns that were not correlated to the U.S. equity market and protect capital in difficult equity markets.

Achieving a net annualized return of 5% to 7% is not easy. Achieving this return target with no beta (i.e. no help from the market return) requires finding both long and shorts that will outperform the index and create "alpha" for our investors. Because we run the FG Alpha Fund with zero net exposure, our expected return from the market is zero and it requires our team to perform extensive work finding mispriced opportunities in order to generate our targeted returns. The equity markets were strong between 2012 and 2016 which helped our long positions but otherwise proved to be challenging for short positions. Seeing as our Fund holds just as many short positions as long positions, not only did we generate returns that were superior to the market with our long positions, but we also generated positive returns from our short positions in three out of the past five years. To analyze the quality and consistency of our stock picking, we monitor two statistics: the batting average and the slugging average.

The batting average is the percentage of profitable positions during a given period (number of profitable positions divided by the total number of positions). Since inception, the FG Alpha Fund has maintained a consistent batting average of over 61%. The slugging average is a calculation revealing if we make more money when we have winning positions than when we have losing positions (average gain on profitable positions divided by the average losses of losing positions). Proper risk management including cutting losing positions is therefore key to maintaining a strong slugging average. Since inception, our slugging average has been 1.3x meaning that on average we make 30% more on winning positions than on losing positions. The quality of our stock picking over the full five year history of the FG Alpha Fund is illustrated in the following page.

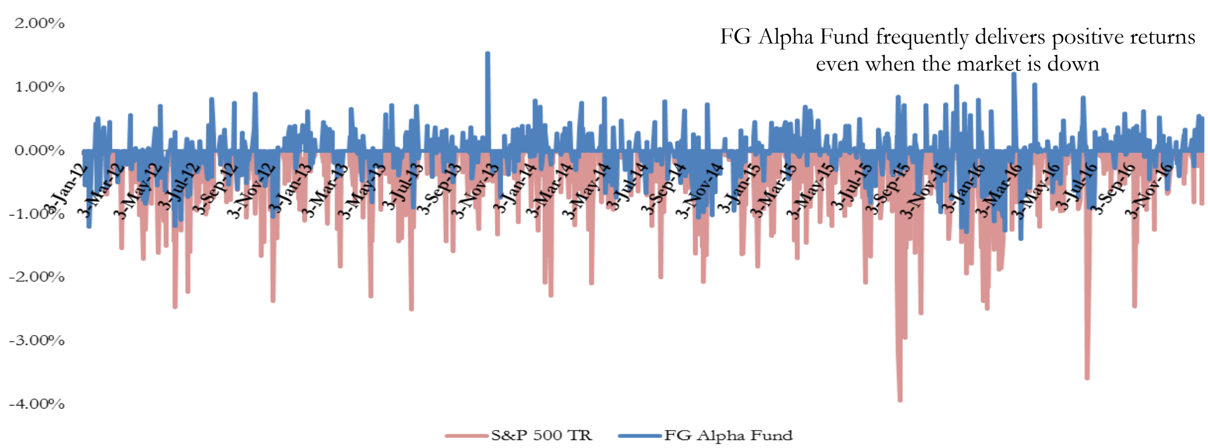
F O R M U L A   G R O W T H

Contribution of all positions (2012-2016)



Our second objective was to offer returns that were not correlated to the U.S. equity market. As the primary asset class used by investors to diversify is now generating low returns (bonds), investors are looking for a liquid and low correlation investment offering a good return for their portfolios. The FG Alpha Fund strives to achieve low correlation to U.S. equities by maintaining a low dollar exposure, a low beta exposure and controlled risk factor exposures to the market. Since the launch of the strategy in 2012, the FG Alpha Fund had a very low daily return correlation of 0.2 vs. the S&P500 TR. The graph below illustrates the daily performance of our Fund (blue) on the negative days of the S&P500 TR (red) over the past five years. It is easy to see that our volatility and downside capture is significantly lower than that of the market. Moreover, the FG Alpha Fund frequently delivers positive returns even when the market is down, further demonstrating its low correlation to the market during difficult periods.

Daily Returns of the FG Alpha Fund during negative days of the S&P500 TR Index 2012—2016



Finally, our third objective was to protect capital in periods of equity market corrections. While the FG Alpha has not yet experienced a formal market crisis, the U.S. equity market has proven to be volatile over the past 5 years with many difficult months. The table on the following page illustrates the performance of the FG Alpha Fund during the difficult months experienced by the U.S. equity market (months when the S&P500 TR or the Russell 2000 TR lost more than 1%). The FG Alpha Fund was positive during more than half of these difficult months and very effective at protecting capital when stocks were down with a net cumulative return of -3% compared to -68% for the Russell 2000 TR over the same period.

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Performance of FG Alpha when US stock indices lose more than 1% in a month 2012—2016

	Stocks		Bonds	
	S&P 500	**Russell 2000**	**JPM GABI**	**FG Alpha**
April 2012	-0.6%	-1.5%	1.2%	-1.6%
May 2012	-6.0%	-6.6%	-0.8%	-1.5%
July 2012	1.4%	-1.4%	1.1%	0.1%
October 2012	-1.8%	-2.2%	-0.1%	0.9%
June 2013	-1.3%	-0.5%	-1.1%	1.1%
August 2013	-2.9%	-3.2%	-0.5%	1.1%
January 2014	-3.5%	-2.8%	1.2%	1.6%
April 2014	0.7%	-3.9%	1.1%	1.4%
July 2014	-1.4%	-6.1%	-0.8%	-1.3%
September 2014	-1.4%	-6.0%	-2.6%	-1.2%
January 2015	-3.0%	-3.2%	0.2%	0.1%
March 2015	-1.6%	1.7%	-0.8%	1.4%
April 2015	1.0%	-2.6%	0.9%	2.3%
June 2015	-1.9%	0.7%	-0.6%	-0.7%
July 2015	2.1%	-1.2%	0.4%	-1.1%
August 2015	-6.0%	-6.3%	0.3%	1.4%
September 2015	-2.5%	-4.9%	0.6%	-1.3%
December 2015	-1.6%	-5.0%	0.5%	-0.4%
January 2016	-5.0%	-8.8%	1.2%	-5.4%
October 2016	-1.8%	-4.8%	-2.6%	0.0%
Cumulative	**-37.2%**	**-68.4%**	**-1.3%**	**-3.0%**
% of downside vs. Russell2000				**4%**
% of downside vs. S&P500				**8%**

The FG Alpha Fund was positive during more than half of these difficult months and very effective at protecting capital when stocks were down

As we enter our sixth year of managing the FG Alpha Fund, we are determined to build upon the solid foundation we built. This includes striving to generate strong absolute returns that are non-correlated to the market movements while providing downside protection in difficult market environments.

Q4 Review: Portfolio Positioning & Quarterly Attributions

During Q4, the FG Alpha Fund was on the defensive side of its neutral exposure to the market with an average net exposure of -7% and an average net beta exposure of -0.05. We ended the quarter with a net dollar exposure of -9% and a net beta of -0.12. Our gross exposure for the quarter was on average 110%, slightly below our average of 122% since the launch of the strategy in 2012. For the quarter, our Alpha Longs generated +3.3% while our Alpha Shorts cost -1.6% and our portfolio Hedges cost -0.1%.

As examples of our stock picking, please see below for three positions that were meaningful contributors to the overall return of the FG Alpha Fund during Q4:

Weatherford International Plc (NYSE: WFT)

Weatherford is a company that is deeply disliked by the market given concerns about its leverage and its execution issues. We began working on WFT when we noticed that the stock was not participating in the strong rally in energy service companies post the November OPEC announcement. At the time WFT was trading in the low $5s and a few weeks later a false report of a covenant breach caused the stock to drop 25% to under $4 per share. Given our already extensive knowledge of the company and the fact that our target price was $7, we extensively researched the covenant breach. We concluded that it was not an issue and we initiated a position. As the company later addressed the covenant concerns the stock rebounded sharply to over $5 where we locked in some profits. WFT contributed approximately 33bps to gross returns in the quarter.

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K-12 Inc. (NYSE: LRN)

K-12 provides proprietary curriculum, software, and education services for online virtual schools. We have done significant amounts of work on the education space at Formula Growth and have been involved in various companies over the years on both the long and short side. We attended an Education conference in September where we had the opportunity to meet with K-12. The valuation was very depressed due to perceived growth challenges, with the market capitalization only a little above their net cash and accounts receivable on the balance sheet. We concluded that growth was inflecting positively, albeit in the low single digits, and we initiated a small position. However, after the election outcome and more specifically, the appointment of Betsy DeVos as Secretary of Education, we determined that the growth outlook changed materially for the better as Betsy was a proponent of school choice and virtual schools and significantly increased our position size in K-12. It added 45 bps of return and we continue to own the position today as we believe the growth and valuation should continue to improve under the new administration.

Web.com Group Inc (NYSE: WEB)

Web.com provides full-service website solutions to small businesses. In Q3 the stock had a dramatic sell off from $18 to $13 per share opening up a nice window to our target price (low $20s). We purchased the stock aggressively in the $13-$14 range after discussions with management. We felt confident that the business outlook was intact and recent M&A transactions had occurred at significantly higher valuations than where WEB was trading. Subsequent to our purchase the stock rebounded nicely to the $19-$20 range where we locked in some profits. WEB contributed approximately 50bps to the gross return of the Fund in the quarter.

<u>Outlook</u>

The current market environment feels like the exact opposite of last year's setup. As we were writing our year-end letter in January 2016, investor pessimism was extreme and the market had drew down significantly with a 22% peak to trough decline in the Russell 2000 TR despite our view that the U.S. economy was continuing to improve. This provided us with a significant amount of long ideas with strong return potential. On the other hand, we currently find ourselves with investor optimism at a new high, U.S. equity valuations being at high levels and very few new long investment ideas meeting our return criteria. We are much more cautious as we begin 2017. Lower taxes and less regulation are likely to improve the growth outlook, however, we also believe there is a high probability of increased market volatility that could stem from higher interest rates, inflation pressure, a stronger U.S. dollar, and geo-political uncertainty combined with high equity valuations. In an environment of equity market volatility, we expect to generate returns from both the long and the short side and believe the alpha fund to be a great compliment in anyone's portfolio.

Our partner and great friend, René Catafago begins a new chapter in his life in 2017. René has been absolutely essential in the development of Formula for 40 years. His hard work, sage counsel and judgement has been crucial to the organization and our clients. He began his association with Formula and John Dobson in the late 1970s and joined the company full time 30 years ago. Over the years he has been involved in every aspect of the business through thick and thin. His daily presence and steadying influence will be sorely missed around the office. To help as we transition he has graciously agreed to act as an Advising Consultant for 2017 and Ari Kiriazidis, who has been with us for over 15 years, will replace him as CFO. We wish him the very best and cannot thank him enough for all he accomplished.

On behalf of the officers, and employees of Formula Growth let us also take this opportunity to sincerely thank you for your continued support and to wish you a healthy, happy and prosperous 2017.

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Market and Beta Exposure

	Sep-30	Q4 Avg.	Dec-30	2016 Avg.
Gross Long	52.7%	51.5%	51.7%	52.1%
Gross Short	(62.7%)	(58.9%)	(61.0%)	-58.1%
Net	(10.0%)	(7.4%)	(9.3%)	(6.0%)
Total Gross	115.4%	110.4%	112.7%	110.2%
Net Beta	-0.07	-0.05	-0.12	-0.03

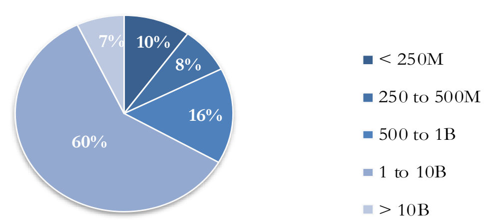
Strategy Exposure Breakdown

	Sep-30	Q4 Avg.	Dec-30	2016 Avg.
Pair Trade	0.0%	0.0%	0.0%	1.7%
Hedge	-26.6%	(22.2%)	-36.1%	(22.3%)
Alpha Long	44.4%	44.7%	46.3%	45.5%
Alpha Short	(33.5%)	(33.7%)	(21.1%)	(31.9%)

Number of Positions by Market Cap (Period End)

	Long	Short	Total
< 250M	9	0	9
250 to 500M	9	1	10
500 to 1B	6	2	8
1 to 10B	26	22	48
> 10B	2	2	4
Funds/ETF	0	7	7
Total	**52**	**34**	**86**

Market Cap Exposure Breakdown (Period End)



Strategy Gross Attribution*

	Q1	Q2	Q3	Q4	2016
Hedge	0.3%	(0.7%)	(1.6%)	(0.1%)	(2.1%)
Alpha Long	1.6%	2.5%	9.3%	3.3%	17.6%
Alpha Short	(0.8%)	(1.5%)	0.0%	(1.6%)	(3.9%)

Strategy Gross Attribution*

	2012	2013	2014	2015	2016
Alpha Short	2.1%	(1.6%)	0.7%	4.6%	(3.9%)
Alpha Long	29.9%	34.9%	7.1%	4.3%	17.6%
Hedge	(4.2%)	(11.7%)	(1.7%)	0.9%	(2.1%)

Net Sector Exposure

	Sep-30	Q4 Avg.	Dec-30	2016 Avg.
Cons. Discr.	2.9%	0.7%	(2.1%)	4.2%
Cons. Staples	(5.1%)	(2.5%)	(1.4%)	(5.4%)
Energy	0.0%	(0.1%)	0.8%	0.1%
Financials	(5.3%)	(3.2%)	(4.0%)	(3.4%)
Health Care	(2.6%)	(2.3%)	(2.5%)	(2.2%)
Industrials	(10.8%)	(7.8%)	(5.0%)	(3.9%)
IT	1.5%	2.2%	3.1%	3.0%
Materials	8.4%	5.6%	2.1%	2.2%
Telecom.	0.3%	0.0%	(0.2%)	0.1%
Utilities	(0.8%)	(0.7%)	(0.8%)	(0.9%)
Real Estate	1.5%	0.8%	0.8%	0.3%

Sector Gross Attribution

	Oct	Nov	Dec	Q4	2016
Cons. Discr.	(0.5%)	0.3%	0.9%	0.7%	1.7%
Cons. Staples	0.3%	-0.3%	(0.0%)	(0.1%)	(0.2%)
Energy	0.1%	0.2%	1.2%	1.5%	4.2%
Financials	0.3%	0.0%	(0.1%)	0.1%	(0.7%)
Health Care	0.0%	-0.2%	(0.1%)	(0.3%)	(0.6%)
Industrials	(0.4%)	-0.9%	0.1%	(1.1%)	0.4%
IT	(0.4%)	-0.1%	0.3%	(0.2%)	2.5%
Materials	0.4%	0.3%	0.5%	1.2%	5.3%
Telecom.	0.0%	0.0%	(0.0%)	(0.0%)	0.3%
Utilities	0.0%	0.0%	(0.0%)	(0.0%)	(0.2%)
Real Estate	(0.2%)	0.1%	0.1%	(0.0%)	(0.1%)

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- 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.

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.
- The methodology of the calculation of the performance attribution was updated in Q4 2016.
- 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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