

# Formula Growth Alpha Fund

## First Quarter 2019 Investment Results

### Highlights:

- ◆ During the first quarter of 2019, the FG Alpha Fund had a net return of US\$ +5.2% while the total return of the S&P 500, the Russell 2000 and the HFRI EMN was US\$ +13.6%, US\$ +14.6%, and US\$ +1.9% respectively;
- ◆ A reversal of negative sentiment surrounding interest rates, global growth and the US/China trade agreement drove stocks higher during the quarter;
- ◆ The FG Alpha Fund had a strong first quarter generating important gains from long positions while short positions did very well considering the equity market rally;
- ◆ The strategy has a compounded annualized net return of US\$ +7.6% since inception with a very low correlation to equities (daily correlation to the S&P 500 of 0.0 for 1 year, 0.0 for 3 years and +0.2 since inception in 2012)

Dear Investors,

The FG Alpha Fund had a net return of US\$ +5.2% in the first quarter while the total return ("TR") of the S&P 500, the Russell 2000 TR, and the HFRI Equity Market Neutral ("EMN") were US\$ +13.6%, US\$ +14.6%, US\$ +1.9% respectively. The FG Alpha Fund has generated a compounded annualized net return of US\$ +7.6% with a volatility of +7.1% since inception. The strategy has also maintained a very low correlation to equities throughout different periods of the equity markets (daily correlation to the S&P 500 of 0.0 for 1 year, 0.0 for 3 years and +0.2 since inception in 2012).

The US equity markets have experienced quite the turnaround. The S&P 500 TR and the Russell 2000 TR lost -19% and -25% respectively between September 29th and December 24th, 2018 and then increased +21% and +22% respectively since Christmas. The month of January 2019 was the markets' best start to the calendar year since 1987. In fact, the Russell 2000 TR Index was up +14.6% during the first quarter marking the best Q1 since 1991 and the best calendar quarterly gain since 2011.

Market sentiment has changed significantly since Q4 2018. From a stock investor's point of view, the fourth quarter could have been termed a near death experience. The dramatic sentiment swing back towards the Bull camp was largely underpinned by a change in perspective on a few major issues. Firstly, tensions largely abated with the Fed's dovish 180 degree pivot on interest rates. Secondly, there were nascent signs that perhaps global growth might not be as bad as thought, with no immediate recession in the cards. Finally, the US and China made some progress on a trade agreement, while at the same time stimulating their economies. Both a trade deal and easy money are important if global growth is to accelerate. Stronger global growth in turn should re-ignite corporate earnings.

Q4 company earnings announcements indicated that the US economy is currently in good health while, on the other hand, guidance has been uneven in America. The strong equity market performance in January continued throughout February while March proved to be tougher. Investor concerns surrounding global growth put pressure on cyclical stock prices whereas the defensive sectors performed better. The Federal Reserve left interest rates unchanged and signaled no rate hikes for the balance of 2019 acknowledging global growth uncertainty and muted inflation pressures. As the 10-year U.S. Treasury yield fell to a 14-month low, the yield curve inverted (U.S. short term interest rates being higher than the 10 year interest rate) and concerns of a recession came to the forefront. Historically, an inverted yield curve signals recessions anywhere from six months to three years before they actually occur. Even with signals of slowing economic conditions, the exact timing and occurrence of a recession can be difficult to predict.

### Fund Positioning & Attribution

After a disappointing period of stock picking in 2018, we are pleased to announce that our stock picking is very strong so far in 2019. This is largely due to the fact that corporate earnings confirmed our investment theses for many positions leading to a strong rebound in the portfolio. While our long positions had the largest contribution to performance in Q1, our short positions also fared relatively well. During the quarter, the FG Alpha Fund generated gains from alpha long positions (+11.4%) while alpha shorts (-2.2%) and hedges (-4.1%) detracted from gross performance. In terms of the best and worst performing sectors, materials (+1.8%) and information technology (+1.5%) contributed the most while real estate (-0.5%), financials (-0.4%) and

# Formula Growth Alpha Fund

## First Quarter 2019 Investment Results

utilities (-0.1%) were the largest detractors from the portfolio's gross return.

On the short side of the portfolio, 2017 and early 2018 were particularly frustrating periods as we observed companies missing their expected quarterly numbers yet their stock prices only experienced marginal losses before resuming their uptrend. By contrast, starting in mid-2018, companies missing their forecasted numbers or previous guidance began experiencing significant declines in their stock prices. In fact, we had many of our short positions decline between -10% and -20% this year after announcing weak earnings and/or guidance generating positive value added to the portfolio. We believe this new reality will persist and lead to a more balanced contribution between our long and our short positions to total returns.

The FG Alpha strategy generally maintains limited net market exposure (typically between +10%/-10%) yet we remain dynamic by adjusting our position depending on market opportunities. The market correction in Q4 2018 served as an opportunity to add new long opportunities while taking profits on some short positions. The net exposure of the strategy therefore increased from net short -8.2% at the beginning of October 2018 to net long +7.2% at the end of 2018. We took profits on long positions throughout Q1 2019 and ended March 2019 with a net exposure of -4.7% and a net beta of approximately 0.

Although the Fed tamed their rate-hike projections, which in turn gave equity investors an initial green light to take on risk, they still acknowledged concerns surrounding global growth. As we begin the second quarter, geopolitics continue to be opaque and this, together with the move in the markets, has subdued many investor expectations. With interest rate decreasing lately, we could see a second wind from some industries such as housing. Yet, ten years into the current bull market has investors pondering where we are in the cycle and what comes next. It is our view there is not too much conviction either way – for the bulls or the bears.

### Outlook

We believe that volatility in the equity markets will likely persist throughout 2019. We will remain disciplined, respecting our fundamental bottom-up approach which we expect will keep us balanced in both overly enthusiastic and overly pessimistic stock market periods. In periods of high volatility, the combination of our net exposure flexibility and our stock picking skills should result in strong compounded returns. It is arguably during these volatile periods that investors should consider allocating more to long/short strategies.

For more information regarding our firm and products, please visit our website at [www.formulagrowth.com](http://www.formulagrowth.com).

On behalf of the team at Formula Growth, please allow us to take this opportunity to sincerely thank you for your continued support.

Formula Growth Limited

**Formula Growth Alpha Fund**  
**Class F (US\$) Monthly and Year-To-Date Net Returns (US\$ Returns)**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	5.6%	0.7%	(1.1%)										5.2%
2018	(1.3%)	1.0%	1.2%	2.1%	(0.2%)	(0.1%)	(0.8%)	(1.4%)	(1.3%)	(0.5%)	0.1%	(3.0%)	(4.1%)
2017	1.0%	(0.4%)	1.3%	(0.6%)	1.7%	1.3%	(0.2%)	0.7%	1.1%	(0.9%)	(2.0%)	0.8%	3.9%
2016	(5.4%)	1.4%	5.2%	0.2%	0.7%	(0.6%)	1.3%	1.8%	2.4%	0.0%	(0.8%)	2.2%	8.4%
2015	0.1%	2.5%	1.4%	2.3%	1.0%	(0.7%)	(1.1%)	1.4%	(1.3%)	0.6%	1.2%	(0.4%)	7.1%
2014	1.6%	2.2%	1.4%	1.4%	3.4%	0.0%	(1.3%)	1.1%	(1.2%)	(4.4%)	(1.2%)	0.0%	2.7%
2013	1.1%	(1.1%)	0.8%	(0.8%)	2.1%	1.1%	1.8%	1.1%	1.5%	4.6%	(0.9%)	0.3%	11.9%
2012	7.0%	6.6%	0.9%	(1.6%)	(1.5%)	(1.8%)	0.1%	0.7%	1.4%	0.9%	2.2%	5.5%	21.9%

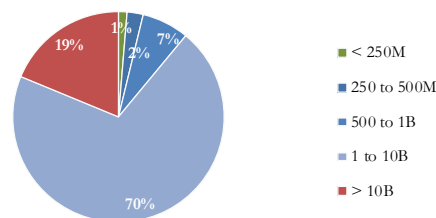
# Formula Growth Alpha Fund

## First Quarter 2019 Investment Results

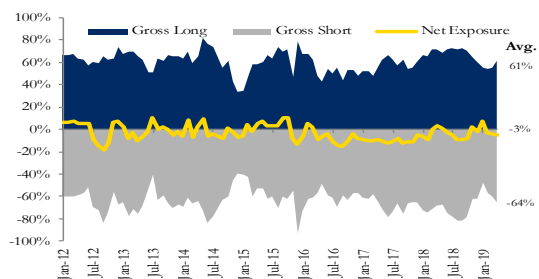
### Market and Beta Exposure

	Dec-31	Q1 Avg.	Mar-31	2019 Avg.
Gross Long	54.7%	54.3%	61.0%	54.3%
Gross Short	(47.5%)	(57.3%)	(65.8%)	(57.3%)
Net	7.2%	(3.0%)	(4.7%)	(3.0%)
Total Gross	102.2%	111.6%	126.8%	111.6%
Net Beta	0.07	-0.03	-0.01	-0.03

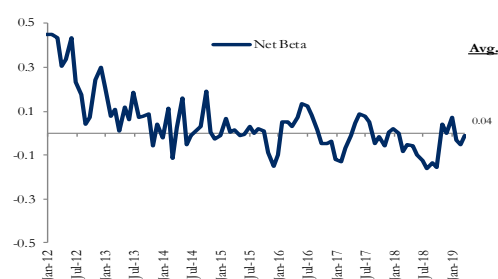
### Market Capitalization Exposure Breakdown



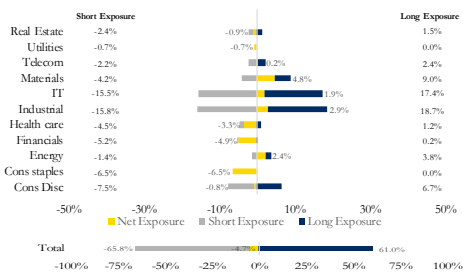
### Portfolio Neutrality in Terms of Dollar Exposure



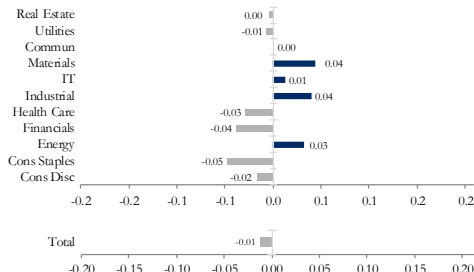
### Portfolio Neutrality in Terms of Beta Exposure



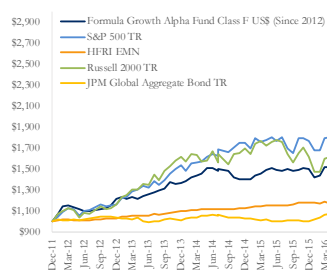
### Sector Neutrality in Terms of Dollar Exposure



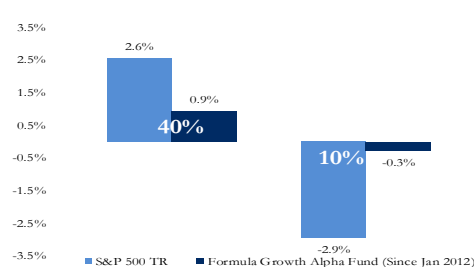
### Sector Neutrality in Terms of Beta Exposure



### Cumulative Return vs Peers, Stocks and Bonds



### Participation in Market Upside & Downside



Graphs above are either as at March 31st 2019 or since inception of the strategy. Please see Notes & Disclaimers on page 5. Do not hesitate to contact us should you have any questions.

- ◆ Alpha longs: An investment strategy which involves taking long positions in stocks that are expected (in the opinion of the managers) to increase in value by more than 30% over approximately 12 to 18 months.
- ◆ Alpha shorts: An investment strategy which involves taking short positions in stocks that are expected (in the opinion of the managers) to decrease in value by more than 20% over approximately 12 to 18 months.
- ◆ Short positions: The sale of a borrowed security, with the expectation that the stock/security 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 in a stock/security 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 or stock/security to offset and balance against the risk adopted by assuming a position in a contrary or opposing market or stock/security.
- ◆ Correlation: Correlation in the investment industry is a statistic that measures the degree to which two securities move in relation to each other. Correlation is computed into what is known as the correlation coefficient, which has a value that must fall between -1 and 1. A perfect, positive correlation means that the correlation coefficient is exactly 1. This implies that as one security moves, either up or down, the other security moves in lockstep, in the same direction. A perfect, negative correlation of -1 means that two assets move in opposite directions, while a zero correlation implies no relationship at all.
- ◆ 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.
- ◆ Upside/Downside Capture: Upside market participation since inception is calculated as the average performance of the fund when the benchmark has a positive month while the downside market participation is calculated as the average performance of the fund when the benchmark has a negative month.
- ◆ HFRI Equity Market Neutral Index: The HFRI Equity Market Neutral Index consists of funds with net equity market exposure no greater than 10% long or short on average and it is denominated in U.S. dollar. Chicago-based Hedge Fund Research Inc. is a global leader in the creation of indexation and analysis of hedge funds.
- ◆ JPM Aggregate Global Bond Index: The JPM GABI consists of the JPM GABI US, a U.S. dollar denominated, investment-grade index spanning asset classes from developed to emerging markets, and the JPM GABI extends the U.S. index to also include multi-currency, investment-grade instruments. JP Morgan is a global financial services bank.

- ◆ Performance figures reported from January 1st 2014 onwards represent the US\$ net performance of the Formula Growth Alpha Fund (the "Fund") after all fees and other Fund expenses. Prior returns represent the US\$ net 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. The Formula Growth Alpha II L.P. was launched in May 2011. In January 2012, significant changes were made to the risk management and portfolio management guidelines. As risk management and portfolio management guidelines established in January 2012 are relevant only to the current strategy of the Formula Growth Alpha Fund, the statistics do not include the 2011 performance figures which are available upon request. In January 2014, the Formula Growth Alpha II Fund structure was changed from a Canadian Limited Partnership to a Canadian Mutual Fund Trust and the name of the fund was changed to the Formula Growth Alpha Fund.
- ◆ Gross portfolio returns discussed 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.
- ◆ All performance figures contained herein are unaudited estimates and subject to change. Certain information contained herein may have been provided by third party sources including Bloomberg, and, although believed to be reliable, has not been independently verified and cannot be guaranteed. Performance estimates are presented only as of the date referenced above and may have changed materially since such date.
- ◆ Market index information shown herein, such as that of the S&P 500 TR, Russell 2000 TR, JPM GABI and HFRI EMN Indices, are included to show relative market performance for the periods indicated and not as standards of comparison, since these are unmanaged, broadly-based indices which differ in numerous respects from the portfolio composition of the Fund. Market index information was compiled from sources that Formula Growth believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data. The current month's HFRI EH: EMN return is that of the HFRX EH: EMN which is used as a proxy for the HFRI. For more information regarding the indices, please consult <https://www.hedgefundresearch.com>.
- ◆ The analyses, opinions, and conclusions of Formula Growth contained in this report include certain statements, assumptions, estimates and projections that reflect various assumptions by Formula Growth concerning anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies and have been included solely for illustrative purposes. No representations, express or implied, are made as to the accuracy or completeness of such statements, assumptions, estimates or projections or with respect to any other materials herein.
- ◆ Performance attribution figures and returns for individual securities, including ETFs, 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/allocation. Performance attributions should be considered approximations calculated to the best of our knowledge.
- ◆ Individual securities selected for discussions are not meant as a complete attribution of portfolio returns. The Manager can be contacted for more complete attribution.

- ◆ 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 letter/report. 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 include ETFs and should be considered as approximations calculated to the best of our knowledge.
- ◆ Market Capitalization represents the relative market capitalization of long and short positions on a United States dollar adjusted basis using available sources such as Bloomberg. Exposures based on these figures do not include ETFs and should be considered as approximations calculated to the best of our knowledge.
- ◆ 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.
- ◆ 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 Formula Growth Alpha Fund.
- ◆ The Fund's 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.