

Formula Growth Alpha Fund

First Quarter 2020 Investment Results

Highlights:

- During the first quarter of 2020, the FG Alpha Fund had a net return of US\$ -9.2% while the total return of the S&P 500, the Russell 2000 and the HFRI EMN was US\$ -19.6%, US\$ -30.6%, and US\$ -6.7% respectively;
- The U.S. small and mid cap equity market had its worst quarter in history leading to very volatile stock prices trading on fear more than fundamental value;
- FG Alpha Fund had similar drawdowns historically, in both panic selling and euphoric equity market rallies, each time followed by very strong alpha generation;
- Business continuity plan is working very well at Formula Growth through the public health crisis.

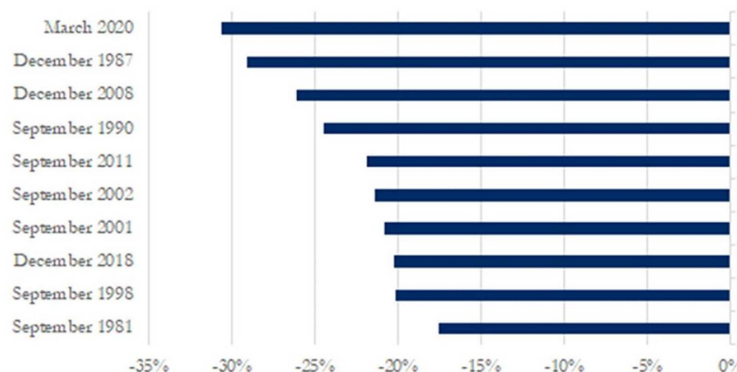
Dear Investors,

Few could have predicted that COVID-19 would have been the catalyst for a market correction – never mind triggering a recession in the United States. The Russell 2000 declined 30.6% during the quarter and touched an intra quarter peak drawdown of -43%. The speed and violence of this small cap bear market was one for the history books. As if this was not enough, crude oil prices sank the most since the 90-91 Gulf War following Saudi Arabia's decision to radically increase exports in order to drive down prices and to hopefully force Russia to respect lower production limits. The second week of March developed into a selloff similar to that in the aftermath of Lehman Brothers' bankruptcy in 2008 pushing stocks deeply in to bear market territory. It took just 22 trading days for the Russell 2000 to drop by over -30%, including March 16th, which was the worst day in the history of the Russell 2000 Index (-14.2%). Not only was this the small-cap index's worst quarter in history but it underperformed large-caps by 1100 bps in the quarter and by 1700 bps over the trailing year. Other historic firsts during the quarter included US 10-year T-bills breaching the 1% level to all-time lows and the 3-month touching negative yields.

Russell 2000 Worst Daily Losses	
March 16, 2020	-14,3%
October 19, 1987	-12,5%
December 1, 2008	-11,8%
March 12, 2020	-11,2%
March 18, 2020	-10,4%
October 15, 2008	-9,5%
March 9, 2020	-9,4%
October 20, 1987	-9,1%
October 26, 1987	-9,1%
August 8, 2011	-8,9%

Source: Bloomberg

Biggest Russell 2000 TR quarterly declines %



Source: Bloomberg

Uncertainties related to the outbreak pushed public health officials to act aggressively to mitigate its human toll and these measures, though designed to be temporary, are aggressively slowing economic activity. Central banks and governments around the world have rushed to announce support measures amid event cancellations, school closures and work-from-home arrangements. The Federal Reserve cut interest rates to zero, it also announced up to \$700 billion in bond purchases and other measures to ensure the proper functioning of markets, the Trump administration has called for a \$2 trillion plus stimulus plan CARES act (Coronavirus Aid, Relief, and Economic Security), the European Central Bank expanded its bond-buying program, and the Bank of Canada lowered interest rates to support the economy. Q1 2020 will be remembered as one of the most difficult quarters in history.

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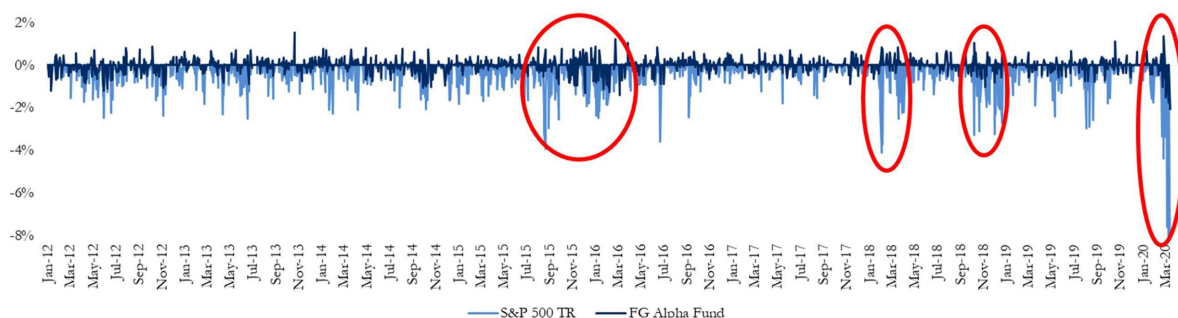
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Fund Positioning & Attribution

Our fundamental bottom-up investment process lead the strategy to take profits from short positions and to exit a select group of long positions that we believed were going to be at risk in this severe downturn. As long positions generally lost a meaningful amount, the portfolio ended the quarter with a lower gross exposure while the net exposure went from net short to a single digit net long positioning. The negative alpha for the quarter came from both long positions costing more than expected and short positions not making enough to compensate. Sectors contributing the most for the quarter were consumer staples, financials and healthcare while consumer discretionary and industrials were the largest detractors.

Although the FG Alpha strategy mitigated losses in this “black swan” first quarter, we would have hoped to perform better. Here are a few observations we believe to be relevant:

- (1) **There were no risk management breach during the quarter.** Throughout this very volatile period, the dollar net exposure, the net beta exposure and the factor exposure remained within the neutral constraints of the strategy. Only two stocks reached stop losses guidelines and these positions were appropriately reduced in size. We kept a watchful eye on portfolio liquidity and daily portfolio volatility of the strategy which was well controlled considering the market we were facing. The below table illustrates every down day that the equity market has had since we launched the strategy. FG Alpha was up 49% of the time, and there were no days where the strategy had outsized losses, including this past quarter:



- (2) **The strategy had similar drawdowns in the past and recovered rapidly.** These more difficult periods for the strategy tend to occur when stocks trade on fear or euphoria rather than fundamental value. These periods, usually temporary, cause violent moves to stocks in our portfolio and can lead to a dislocation between our long and our short positions. Other examples were:

- During the end of December 2015 and January 2016, the equity markets went through a difficult month trading on global growth slowdown fear causing the FG Alpha strategy to lose -5.4% during January (...touching a low of -8% intra month). This irrational price action led to significant opportunities and the FG Alpha strategy was back to its high watermark in less than 2 months ending the year +8.6%. It also continued to do well with a +21% return between Feb 2016 to Sept 2017.
- In Q4 2017 the stock market went through an incredible rally post the Trump corporate tax cuts in the United States. Stocks traded with no regard to their fundamental value and our strategy suffered an intra quarter loss of approximately -4%. Thereafter, in Q1 2018, the stock market corrected losing over -10% while the FG Alpha strategy generated positive returns for the period.

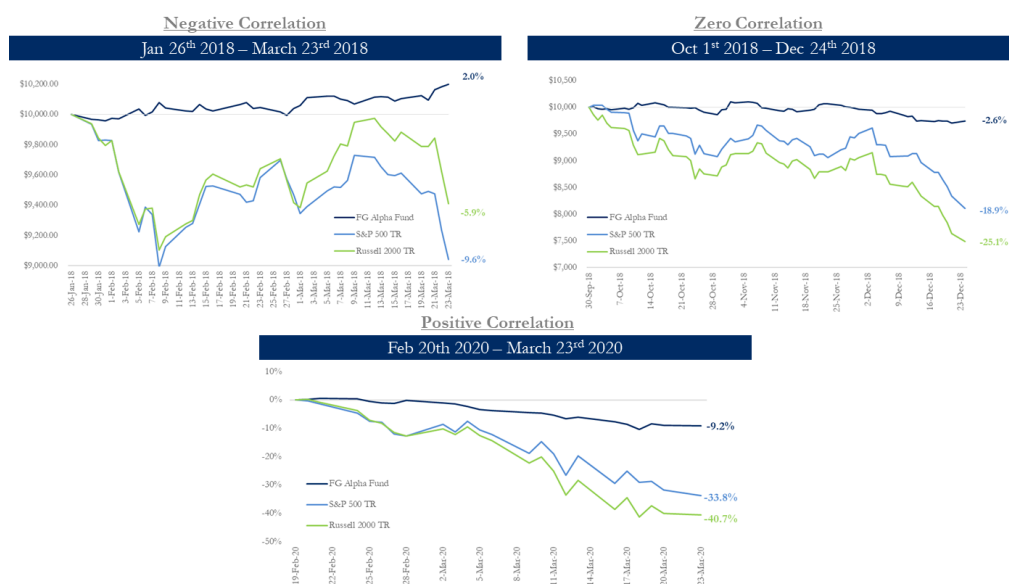
Having lived through other “black swan” periods causing similar intra-month drawdowns, we expect a quick recovery in our portfolios as soon as stocks begin to trade on fundamental value instead of fear.

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(3) **FG Alpha remains a strategy offering very low correlation to equities.** The correlation between the FG Alpha strategy and U.S. equity indices is a low 0.2 (daily data) historically. Such a low correlation effectively means the price movement of the U.S. equity market has very little effect on the returns of the FG Alpha strategy:

- FG Alpha returned +2% between January 26th 2018 and March 23rd 2018 while the Russell 2000 TR and the S&P 500 TR suffered losses of approximately -10% and -6%
- FG Alpha was approximately flat in the first half of Q4 2018 while the Russell 2000 TR and the S&P 500 TR lost approximately -10%. Thereafter, FG Alpha drew down approximately -2.6% in the second half of Q4 2018 while the Russell 2000 TR and the S&P 500 TR dropped approximately -15%
- FG Alpha returned -9% during the most recent drawdown while the Russell 2000 TR and the S&P 500 TR suffered losses of approximately -41% and -34% respectively:



- Finally, looking at drawdowns of more than -5% in the Russell2000 index since we launched the strategy, FG Alpha was positive half the time mitigating losses for our investors:

	FG Alpha	Russell 2000 TR
04/08/2015 - 28/09/2015	0.5%	-11.2%
03/12/2015 - 11/02/2016	-7.9%	-19.7%
14/6/2016 - 27/06/2016	0.1%	-5.3%
16/09/2016 - 7/11/2016	0.0%	-5.1%
26/7/2017 - 25/08/2017	0.1%	-4.9%
29/01/2018 - 23/03/2018	2.0%	-5.9%
21/09/2018 - 24/12/2018	-3.4%	-26.1%
01/05/2019 - 03/06/2019	-1.8%	-7.5%
29/07/2019 - 14/08/2019	-1.3%	-7.0%
→ 20/02/2020 - 23/03/2020	-9.2%	-40.7%
Total	-21%	-133%

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Outlook

Uncertainty surrounding the COVID-19 outbreak remains elevated. It is well known that many businesses have been forced to a near standstill (restaurants, lodging, travel, etc.). The first quarter when reported, and especially the second quarter GDP will decline by amounts never experienced even in the 1929 depression. Many strategists are estimating a drop of 25-50% in Q2 GDP in a wide range of countries. It is still uncertain how long corporate earnings will need to completely recover. Many industries, some large but many more small businesses have seen their near term results obliterated. This likely draws out the earnings recovery. The unknown is how long it will take for businesses to rebuild with \$5 trillion from the various stimulus programs. The rollout of unprecedented liquidity associated with monetary and fiscal policy should help spark a recovery in U.S. equities as businesses pivot, or fold given their new reality. The government actions are designed to provide a bridge over troubled economic water, provided the COVID-19 outbreak timeline doesn't extend beyond current estimates. Clearly on a global basis we will be left with a large overhang due to business failures and bankruptcies, higher levels of unemployment and very high levels of corporate and government debt. Down the road, governments will need to address higher levels of debt and deficits likely in the form of higher taxes. Consumer confidence has been shaken to the core by both the virus and the associated economic ramifications. In this environment interest rates are likely very low for a very long period of time and we feel active investing should trump passive index investing as we move forward. It will be critical to avoid low quality companies or broken business models in the new "normal".

Such dislocation between what we believe to be the fair price of our stocks and their current price offers a great opportunity to generate alpha for months to come. The strategy does not necessarily need a market rally, it simply needs stocks to trade rationally back to their fundamental value. The Russell2000 suffered a drawdown of over -40% in 2020 being hit harder than other markets. Many stocks in our investment universe, both longs and shorts, are currently offering enormous return potential. With our team of portfolio managers having experienced many market crashes including the 2008-2009 financial crisis as well as the tech crash in 2001, we believe we have the experience and talent to generate strong returns from both long and short positions for months and years to come.

General commentary on Covid-19 and business continuity

We are pleased to see our business continuity plan is working well from our three locations in Montreal, New York and Hong Kong while our team is healthy and working hard remotely from these various diverse locations conducting calls with company management teams of current positions as well as new potential high return ideas.

As all of you know the situation with the Coronavirus and public health is quickly evolving and very fluid. Public health professionals are requesting cooperation from individuals, institutions and corporations to play their part in physical distancing and act responsibly as they go about their day-to-day routines to help flatten the infection curve. Formula Growth is following public health pronouncements closely and will strictly adhere to the requirements of any government policy as well as common sense. As a financial institution we currently have an exemption to remain open (in a small way) based on Quebec's most recent pronouncements. As such we have maintained a very small skeleton staff at our HQ in Montreal. It is our view in the short term all aspects of the business can be effectively covered remotely from home or another safe location. The inherent geographical split of our offices and manpower also goes a long way to safeguarding our employees and our investors. We have of course canceled all business travel until further notice, postponed all client and other in-person meetings and we are strongly encouraging the use of the telephone or videoconferencing and other instantaneous communication sources. In sum we are all carefully practicing public health policies.

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On behalf of Formula Growth, we would like to take this opportunity to sincerely thank you for your continued support. In addition, we would also like to extend our deepest thanks to those responders who are working to help in this health crisis, and our sympathies to those who are suffering because of it.

Should you have questions please do not hesitate to communicate with us directly.

Yours truly,

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
2020	0.1%	(1.2%)	(8.2%)										(9.2%)
2019	5.6%	0.7%	(1.1%)	0.7%	(1.6%)	(0.1%)	(1.7%)	(0.7%)	4.3%	1.0%	(0.3%)	(0.5%)	6.2%
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%

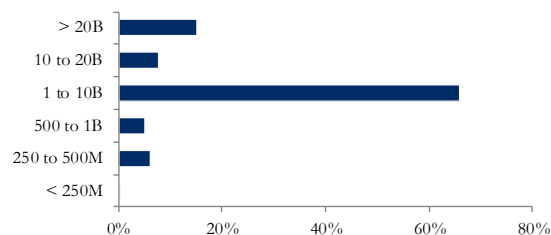
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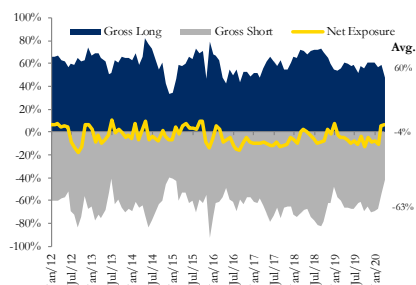
Market and Beta Exposure

	Dec-31	Q1 Avg.	Mar-31.	2020 Avg.
Gross Long	61.4%	52.1%	48.2%	52.1%
Gross Short	-69.6%	-59.3%	-41.4%	-59.3%
Net	-8.2%	-7.2%	6.7%	-7.2%
Total Gross	131.0%	111.5%	89.6%	111.5%
Net Beta	-0.01	0.00	0.10	0.00

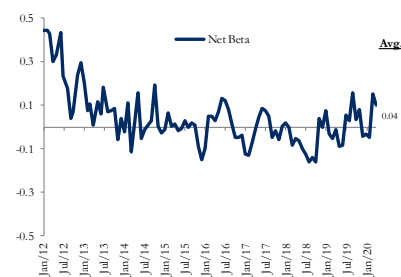
Market Capitalization Exposure Breakdown



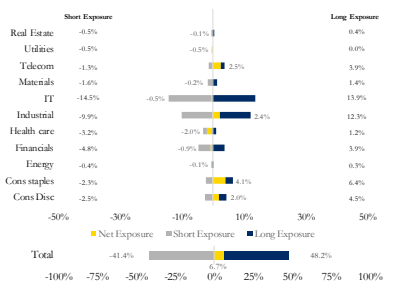
Portfolio Neutrality in Terms of Dollar Exposure



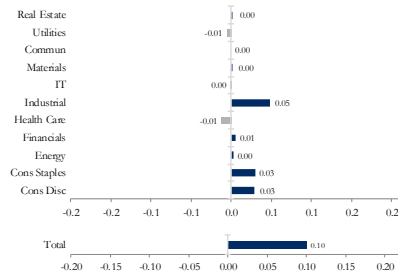
Portfolio Neutrality in Terms of Beta Exposure



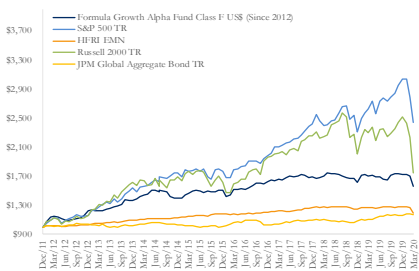
Sector Neutrality in Terms of Dollar Exposure



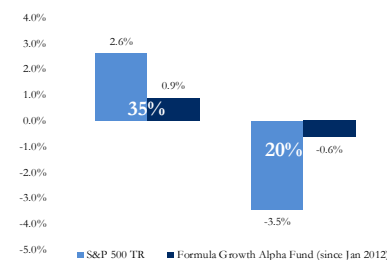
Sector Neutrality in Terms of Beta Exposure



Cumulative Return vs Peers, Stocks and Bonds



Participation in Market Upside & Downside



Graphs above are either as at December 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.

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- ◆ 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.
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