

Formula Growth Alpha Fund

Second Quarter 2020 Investment Results

Highlights:

- ◆ During the second quarter of 2020, the FG Alpha Fund had a net return of US\$ +6.0% while the total return of the S&P 500, the Russell 2000 and the HFRI EMN was US\$ +20.5%, US\$ +25.4%, and US\$ +3.5% respectively
- ◆ After a strong recovery early in the quarter, concerns mounted about the impact of a spike in Covid-19 cases on economic re-opening
- ◆ Continued equity market volatility leads way to opportunities in under-appreciated small cap equity market
- ◆ YTD in 2020, the FG Alpha Fund generated a net return of US\$ -3.8% while the total return of the S&P 500, the Russell 2000 and the HFRI EMN was US\$ -3.1%, US\$ -13.0%, and US\$ -0.1% respectively

FORMULA GROWTH CELEBRATES 60 YEARS

*At the end of June 1960, John Dobson launched the Formula Growth Fund as an informal investment club with a dozen or so investors. Initial investors who stayed the course saw their investment increase an astonishing 1,200 times by June 30, 2020, or a net return of 12.5% CAD per year, strongly outperforming the U.S. stock market. It is a very rare achievement for an independent, open-ended investment fund to persevere for 60 years while delivering such remarkable results, and all of us at Formula Growth are very proud of this achievement. With the current state of the world making it difficult to appropriately celebrate our 60th anniversary, we will be sending our investors, supporters and friends (golfing friends as well!) a copy of the 2nd Edition of **Up and to the Right: The Story of John W. Dobson and Formula Growth**. Up and to the Right tells the story behind the late John Dobson's investment success as well as his unwavering faith in the stock market despite its many ups and downs. The revised edition brings the Formula Growth story up to date explaining how the Formula Growth Fund has doubled in price since the first edition was published in 2014. It also describes how through the broadening of our successful hedge fund platform and expansion into Asia, assets under management have almost tripled. Building on the highly popular investment case studies featured in the first edition, it also includes more than a dozen additional and more recent examples, providing an invaluable educational tool for teaching students the art of investing.*

FG Alpha Strategy Q2 2020 Commentary

During the quarter, the FG Alpha Fund had a net return of US\$ +6.0% as it recuperated a good portion of its losses generated in the first quarter. The strategy experienced strong gains in sectors such as industrials, financials and information technology while the healthcare sector was the only meaningful detractor. While part of the performance was a reversal from the negative alpha generated in Q1, our investment team remained active in discussions with many companies to generate new investment ideas. Throughout the 2nd quarter market recovery, our fundamental bottom-up investment process led the strategy to take profits on long investments that had reached our price target

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and to find more short opportunities. Given that the recovery has been volatile, the net exposure of the strategy oscillated quite a bit in Q2 but remained within the strategy limit of +10% and -10%. More specifically, we began the second quarter with a net exposure of +7% and ended at -4%.

FG Alpha Fund Daily Cumulative Value in 2020



During the second quarter, optimism increased around the outlook for what appeared to be a “re-opening” of the economy in various regions and industries. The rally has been strong with most equity indices clawing back much of their Q1 losses. While market swings have not disappeared, investors believe a rebound can be sustained helped by unprecedented levels of federal stimulus and central bank support. More recently, news on the coronavirus front continues to overhang the market and, on many days, fundamentals take a back seat as little else matters other than the virus. As the 2nd quarter wound down, concerns mounted in the U.S. and in other global locations that a spike in Covid-19 cases may stymie the economic progress made since the economy began to re-open. In the United States, the number of identified cases set new single-day highs, and some re-opened States saw an uptick in hospitalizations. Importantly, U.S. death rates remain subdued, though this was unfortunately not the case in other international hot spots. In spite of this, economic data has generally been encouraging even though we estimate businesses are probably just around 35% reopened at this point. The stock markets have rallied strongly anticipating continuing strength in the economy for the balance of the year and into 2021/22.

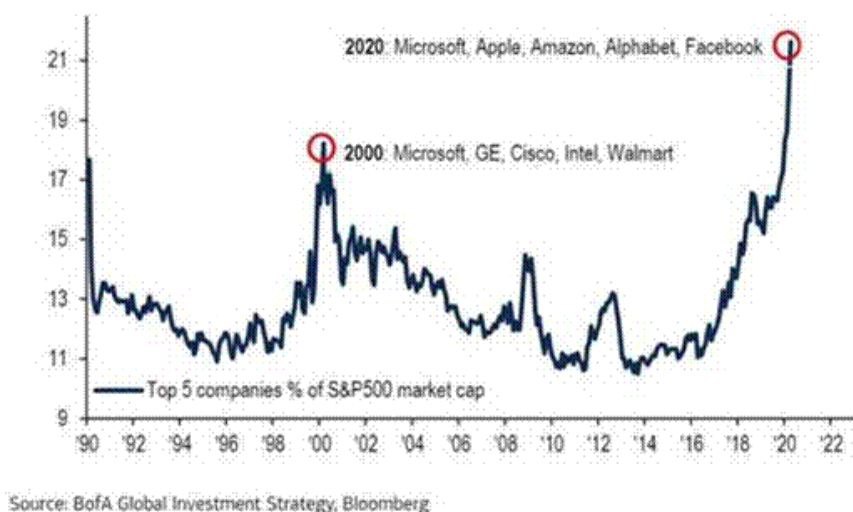
There is little doubt the recovery has been uneven. Travel and leisure as well as restaurants, bars and other businesses involving social gathering are having a tough time. It likely continues to be a rough ride for these industries as hot spots accumulate due to broader testing and tracking, the result of which prolongs social distancing measures. These measures include the wearing of masks, line ups, intermittent shut downs or rollbacks, and quarantines enforced by health authorities. All of which makes it hard on some businesses and of course slows down economic growth. Second wave headlines from around the globe will likely keep the virus top of mind in the coming months and markets will trade nervously. It is worth highlighting that we see another \$1 trillion dollar plus fiscal package targeted to offset some of the slower growth in sectors impacted by behavioral changes. On top of this, only half of the \$3 trillion stimulus packages already announced have been spent.

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On the other hand, many companies are benefiting from the surge in working from home and the new normal we find ourselves in, especially technology companies. As usual the stock market has sorted out, in the short-term, the winners from the losers. Signs of this is the technology laden NASDAQ index currently selling at 42x earnings (it is a market cap weighted index that is dominated by the mega-caps; Facebook, Apple, Amazon, Netflix, Google, and Microsoft). This multiple is almost double the current P/E of the S&P 500 index at 22x. The popularity of these “FAANG-M” stocks is mind numbing when one considers that just 2 of them, Apple and Facebook, have a combined market cap that is bigger than the 2000 companies in the Russell 2000 index. In our mind there is little doubt that the winners are over owned and the losers have been thrown out with the bath water. We like this kind of bifurcated investment environment as it provides opportunity to find the stocks that have been indiscriminately thrown away.

Chart 2: S&P500 now more concentrated in the 5 largest stocks than ever



Outlook

Overall, we believe there is a good chance that the recent Covid-19 trends will plateau and continue to improve as the summer wears on. While the snapback in economic activity we have seen could very well be in the early innings, we expect a bumpy road ahead. The world is awash in liquidity from loose monetary policy and fiscal stimulus programs supporting, for now, stock valuations. According to Ed Hyman at Evercore ISI, the last year has seen no less than 530 stimulus initiatives announced around the world including over 200 rate cuts. Needless to say, global interest rates are very low.

Clearly the main downside risk to the outlook is a more drawn out re-opening and recovery that results in higher unemployment, more balance sheet deterioration and more business failures. If the re-opening stalls, the enormous support provided by governments may be difficult to sustain, and its absence could leave earnings estimates too high. Additionally, the U.S. election looms shortly after the end of the next quarter, and may bring policy discussions that are viewed as less favorable to stocks than the low tax, light regulatory regime of the past four years. In sum, we expect volatility to remain elevated causing significant dislocation between what we believe to be the fair price of our

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stocks and their current price therefore offering great opportunities to generate alpha on both the long side and the short side for months to come.

Other news

More than half of the team has been back in the office for a number of weeks now. We have precautionary measures in place and an office space with ample square footage to allow for physical distancing. Our staggered opening and remote working tools have helped us to gradually get back to a more “normal” routine in these very volatile markets. We believe strong teamwork and communication are essential at times such as these. We remain conscious of the reality and challenges that Covid-19 has brought upon our team. Through it all we are pleased to say that we did not skip a beat working very hard from home or from our various offices. As each member of our staff have their personal situations resolved, we expect to have the majority of the firm back in the offices in the coming month or so.

We have recently offered full-time roles to 2 new investment analysts who join our U.S. Investment team. Alex Guarino and Aniss Gamassi are both graduates of the John Molson School of Business (Concordia University). They have been on board for a number of months and have impressed us with their work ethic and dedication, allowing our senior investment team to cover more ground. We welcome them both to the FG family. Alex will be located in our NYC office while Aniss will be based in Montreal. As is our custom, we have also hired 3 summer interns to pitch in and learn the business.

In closing we hope that you and your families are healthy, safe and taking good care of yourselves during this health crisis. In addition, we would be remiss in not extending our deepest thanks to all those responders who are working to help during this health crisis, and express our sympathies to those who are suffering because of it.

Finally, as we begin our 61st year, to those who have or who continue to invest with us over these many years, we greatly appreciate your support and confidence. It is abundantly clear to us that an investment management firm is only as good as its underlying investors; in this regard we have been very fortunate.

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%)	4.9%	0.8%	0.2%							(3.8%)
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%

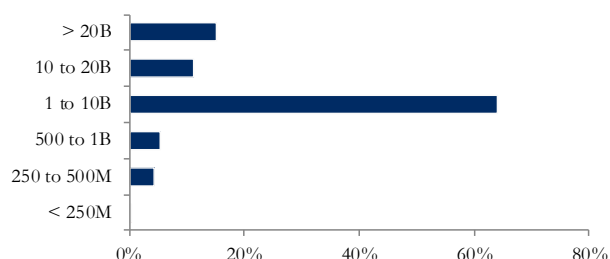
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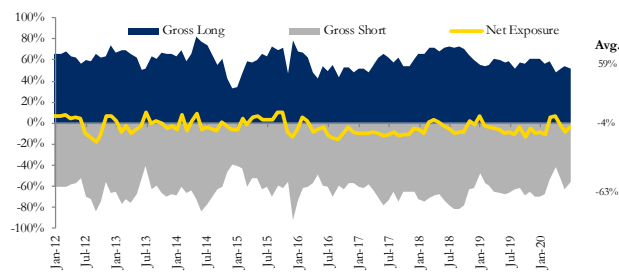
Market and Beta Exposure

	Mar-31.	Q2 Avg.	Jun-30.	2020 Avg.
Gross Long	48.2%	48.3%	52.2%	50.2%
Gross Short	-41.4%	-54.2%	-56.4%	-56.8%
Net	6.7%	-5.9%	-4.2%	-6.5%
Total Gross	89.6%	102.5%	108.6%	107.0%
Net Beta	0.10	-0.03	-0.02	-0.02

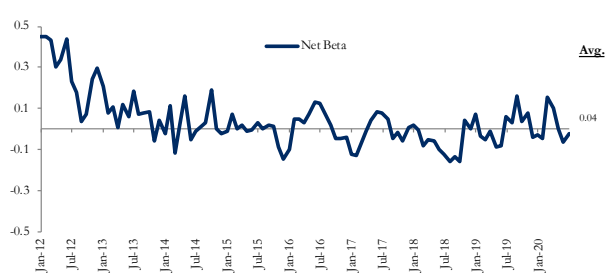
Market Capitalization Exposure Breakdown



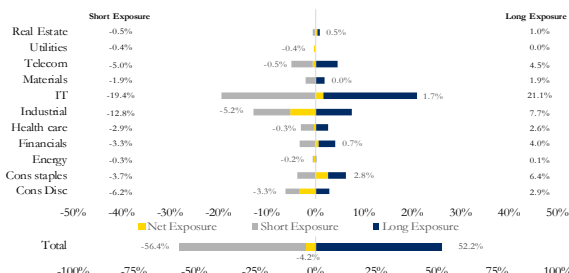
Portfolio Neutrality in Terms of Dollar Exposure



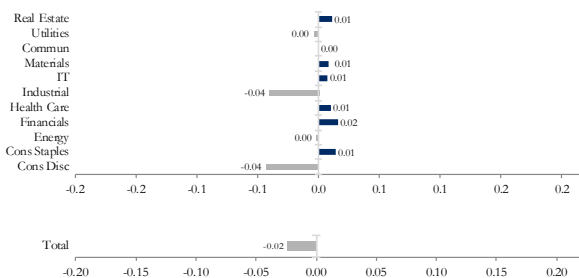
Portfolio Neutrality in Terms of Beta Exposure



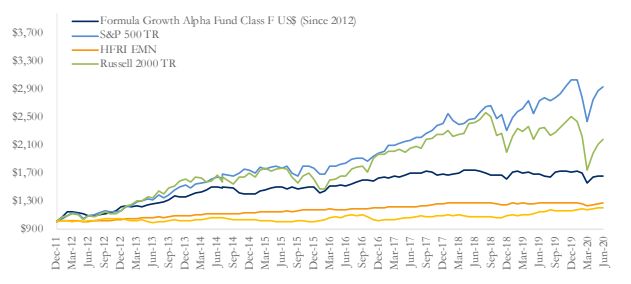
Sector Neutrality in Terms of Dollar Exposure



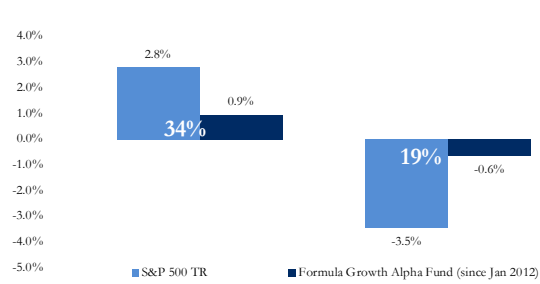
Sector Neutrality in Terms of Beta Exposure



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.

- ◆ 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.