FORMULA GROWTH
1960 - 2020 *Celebrating 60 Years*

October 20th, 2020

Formula Growth Alpha Fund
Third Quarter 2020 Investment Results

Highlights:

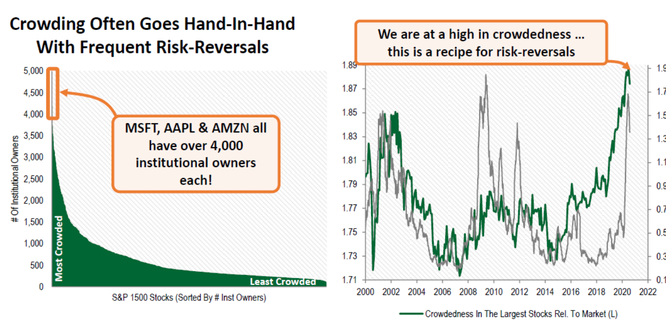
- During Q3 2020, the FG Alpha Fund had a net return of US$ -2.1%;
- The market-cap weighted S&P 500 index (SPY) was up +5.6% year-to-date but much of the broader market remains underwater with the unweighted S&P 500 (SPW) down -4.8% and the Russell 2000 down -8.7% compared to a decline of -5.9% for the FG Alpha Fund;
- The crowding and narrow stock leadership has had the effect of pushing up the valuations of a small group of over bought stocks while many other stocks remain cheap and overlooked;
- Since inception, the FG Alpha Fund generated an annual net return of US$ +5.7%, within our targeted return of 5-7%, while maintaining a daily correlation of 0.2 to U.S. equities and low volatility.

Dear Investors,

Despite a short lived September correction, U.S. equities were strong for the quarter with mega cap, growth and momentum stocks doing extremely well while once again leaving the cheaper value names in the dust. Investors remained optimistic towards progress for a Covid-19 vaccine and better therapies. They were also cheered by the Federal Reserve announcing they will allow for an overshoot of their 2% inflation goal therefore forecasting near zero rates for a longer period. Positive economic news flow continued notably surrounding U.S. home purchases and industrial production. These positives out weighed the uncertainty around a new stimulus program, the November 3rd U.S. election, and tensions over unbridled government spending.

The U.S. stock market continues to march to its own drumbeat with very narrow leadership within the S&P 500. At the beginning of the year, the 5 largest stocks of the S&P 500 represented 18% of the Index, up from about 12% three years prior. The stock market leadership from mega-cap tech names has continued to accelerate with the top 5 names (Apple, Microsoft, Google, Amazon and Facebook) now constituting 24% of the S&P 500's market cap. These 5 names have been terrific performers up an average of 39% year-to-date and are responsible for a large portion of the S&P 500's +5.6% return this year. Since the Covid-19 lows in March the wealth creation of these five stocks has been breathtaking as they have added $3.7 trillion in market cap; a gain that is almost twice as large as the total market cap of the Russell 2000. But if you unweight each of the 500 stocks in the S&P 500, it would instead be down -4.8% instead of up +5.6%. This heavy concentration in an index is not unprecedented. In the late 1990's, at the top of the NASDAQ technology bubble, the largest 5 stocks at that time were more than 18% of the market (GE, Microsoft, Cisco, Walmart and Intel). From January 1, 2000 to December 31, 2002, the Market Cap Weighted S&P 500 dropped 40% while the Equal Weighted S&P 500 only dropped 15%. And we all remember that the overly concentrated NASDAQ Index collapsed by nearly 70%.

While we do not expect such draconian declines, it is our belief that crowding in an index causes a stock market to be more at risk for correction and volatility. Over time, corrections can be healthy as they result in a rotation of leadership among asset classes and sectors. Sound investing principles include diversification and a re-balancing of your portfolio by taking profits and adding to laggards when appropriate. A small cap catch-up trade seems overdue. Given the relative market cap sizes even a modest re-balance from large cap to small cap could be a strong catalyst for the Russell 2000.



Source: CornerstoneMacro

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The crowding has also had the effect of pushing up the valuations of a narrow group of over bought stocks while many other stocks remain cheap and overlooked. Formula Growth invests in U.S. Small and Mid cap stocks that are almost by definition under owned. We tend to shy away from crowded trades and high valuations looking instead for earnings growth at reasonable valuations. Our expectation for continued cyclical recovery suggests the investment case for small and mid-cap growth stocks is strong. We believe we are very well positioned as the market rotates away from extreme large-cap to other cheaper stocks and sectors.

In terms of our equity market neutral strategy, we remain neutral at the portfolio and sector level in both dollar exposure (+/- 10%) and net beta exposure (+/- 0.1). The strategy also remains within acceptable factor bias boundaries. Our fundamental bottom-up process that looks for "GARP" (Growth At Reasonable Price) is leading us to what we believe to be the most rewarding long and short stocks. Depending on the environment, these ideas will sometimes have a factor bias meaning that we could at any point in time have more or less long/short exposure to factors such as value, growth, small market cap, momentum etc. These factor biases are never a top down market call but rather stem from our fundamental analysis as to where to find stocks with the highest return potential. We track these factor biases to ensure the FG Alpha strategy remains within maximum exposure limits with no long lasting factor biases in the portfolio. Over the past 18 months, the return difference between value stocks versus growth/momentum stocks is extremely stretched relative to historical standards. Accordingly, our process has lead the investment team to find very high potential return ideas in cheap stocks that tend to have a value tilt, and to very expensive short ideas that tend to have a growth/momentum tilt. Each investment has its own thesis as to why we believe the stock will re-rate in the near future. The stock market's preference for growth/momentum stocks has proven to be a strong head wind this year. Nevertheless, we believe the portfolio has significant upside. For example, the FG Alpha Fund recently outperformed as it gained +1.8% in the first half of September 2020 similarly to when it gained +5.4% in September-October 2019 while the U.S. markets were -7.2% and +4.1% respectively.

Source: koyfin.com

<u>Q3 2020 Performance</u>

The Fund gained 4.9% on the long side while shorts and hedges detracted -3.5% and -3.1% respectively. The top three winners in the fund were three longs from the tech, financial and health care sectors, contributing 130, 93 and 81 basis points respectively. The top three losers were a long and two shorts from the industrial, tech and consumer staples sectors costing 61, 54 and 52 basis points respectively. The net exposure of the strategy oscillated within the limits of +/- 10%, beginning the quarter at -4% and ending at -3%.

We have been investing in U.S. small and mid cap stocks since 1960 and launched our long/short strategies in 2002. At the core of our successful investment history of buying and selling U.S. small and mid cap stocks is our discipline of "sticking to our knitting". We are very careful about participating in fads or hot stock trends unless the valuation makes sense in the context of sustainable growth rates for a business. This "GARP" investment philosophy has experienced head winds in the past. Sometimes sticking to your knitting can be painful but we have learned over the years that discipline and staying true to our investment process ultimately pays off. It is our view that the investment appeal of the overcrowded high momentum stocks will peter out and that our cheap "GARP" stocks will be rewarded. Our investment team is very excited with the return potential of our stocks and we would be happy to schedule a call with members of our investment team to discuss specific positions we have in the portfolio.

Outlook

During the third quarter, the broad theme of a vaccine-led earnings recovery in 2021 remained intact. Though various regions have experienced an uptick in Covid-19 with constraints on local economic activity and early government stimulus programs have waned, earnings expectations remained little changed for 2020 in the low $130's for the S&P 500, while the "placeholder" expectation for 2021 also remained in the low $160's. Tech leadership continued as the early bounce from superior fundamentals saw pile on enthusiasm from retail investors.

This rosy market theme may receive fresh scrutiny as the post-Covid era begins, and markets inevitably challenge their prior assumptions. The replacement of the current top-down earnings view for 2021 may be a stretch for bottoms-up analysts, specifically given the many industries which experienced likely demand pull-forward from emergency Covid relief programs. Analysts will also need to bake in a likely change in administration, which favors raising corporate tax rates by roughly 25%, eroding future earnings expectations by as much as 8-10%. Capital gains tax increases may lead to selling supply as owners seek to realize ahead of the changes. A change in regulation from highly corporate-friendly to more consumer and worker-friendly also seems likely, adding costs to businesses. Finally, though the Fed continues to communicate rate suppression at the short end of the curve, long rates made a bottom during the third quarter and ultimately will be driven by the increased supply of debt from pandemic spending. Any unexpected negative move in rates or equity risk premia would have a serious negative impact on markets now trading at the highest valuation levels since the late 1990's.

Generally, we view the U.S. elections as mostly a non-event over the long haul but this year's contest bears close watching. As we approach November 3rd, sentiment is increasingly shifting to not only a Trump defeat but the odds are increasing that the President is likely to be defeated decisively. The bottom falling out for Republicans is now a distinct possibility and it is important to think about the fallout from a Democrat sweep. A sweep of the Presidency, House and Senate could reduce the after-tax return of owning stocks creating volatility. In the short-term, the damage to after-tax returns from higher taxes could be offset by large fiscal stimulus programs, lower Trump tariff risk and continued low real interest rates that could help prop up stock prices.

In closing, we hope that you and your families are healthy and safe. Should you have any questions, please do not hesitate to communicate with us directly.

Yours truly,

Formula Growth Limited

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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%	0.5%	(2.4%)	(0.1%)				(5.9%)
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%
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%

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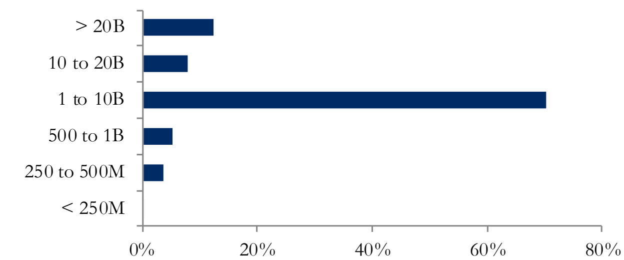
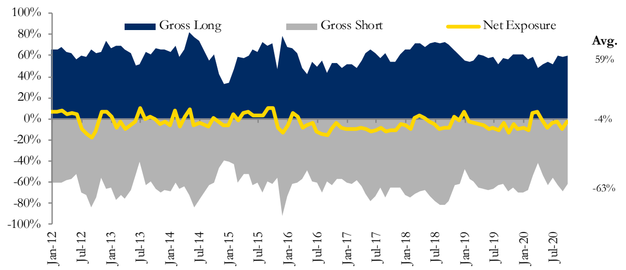
Market and Beta Exposure

	Jun-30.	Q3 Avg.	Sept-30.	2020 Avg.
Gross Long	52.2%	54.4%	59.5%	51.6%
Gross Short	-56.4%	-58.0%	-62.0%	-57.2%
Net	-4.2%	-3.6%	-2.5%	-5.5%
Total Gross	108.6%	112.4%	121.5%	108.8%
Net Beta	-0.02	-0.04	0.01	-0.02

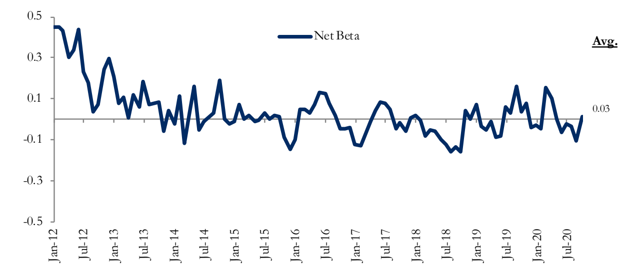
Market Capitalization Exposure Breakdown



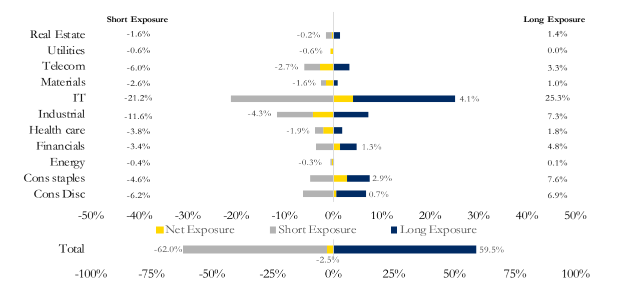
Portfolio Neutrality in Terms of Dollar Exposure



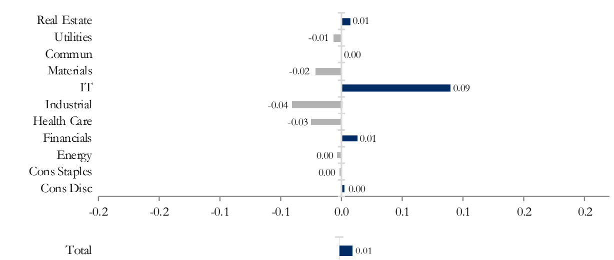
Portfolio Neutrality in Terms of Beta Exposure



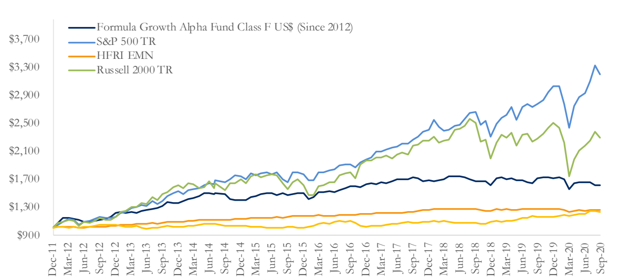
Sector Neutrality in Terms of Dollar Exposure



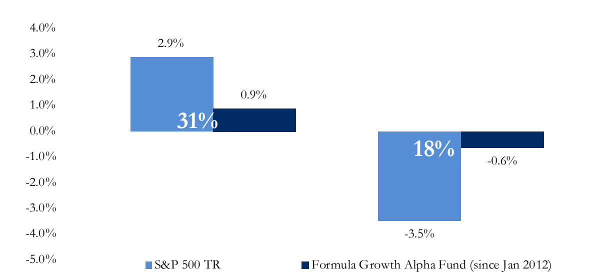
Sector Neutrality in Terms of Beta Exposure



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.

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Glossary of Terms

- 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.

Notes & Disclaimers

- 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/allocations. 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.

Notes & Disclaimers

- 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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