

## Formula Growth Alpha Fund Second Quarter 2021 Investment Results

### Highlights:

- ◆ FG Alpha Fund 2nd quarter net return was US\$ +3.4% and year-to-date is US\$ +11.5%;
- ◆ Low quality and meme stocks surprise to the upside;
- ◆ The economy and corporate America continue to surge as the stock market climbs a wall of worry supported by low interest rates;
- ◆ Since inception nearly 10 years ago, the FG Alpha Fund has generated an annual net return of US\$ +6.6% while maintaining daily correlation with the S&P 500 of 0.2 and annualized volatility of 7.4%.

Dear Investors,

During the 2<sup>nd</sup> quarter, the U.S. stock markets snapped back from a choppy month of May with a resurgence in technology stocks at the expense of cyclicals. The benchmark S&P 500 closed the month of June at an all-time high recording a 15.3% year-to-date gain. This represents the second best first half return in 20+ years for the S&P 500 Index, only exceeded by the 17.4% gain in the first half of 2019.

The Formula Growth Alpha Fund delivered a solid Q2, posting a US\$ 3.4% return, net of fees. The overall market as measured by the S&P 500 was up 8.3%. The market wrestled with the transition of leadership back to growth from value post the May 12<sup>th</sup> bottom.

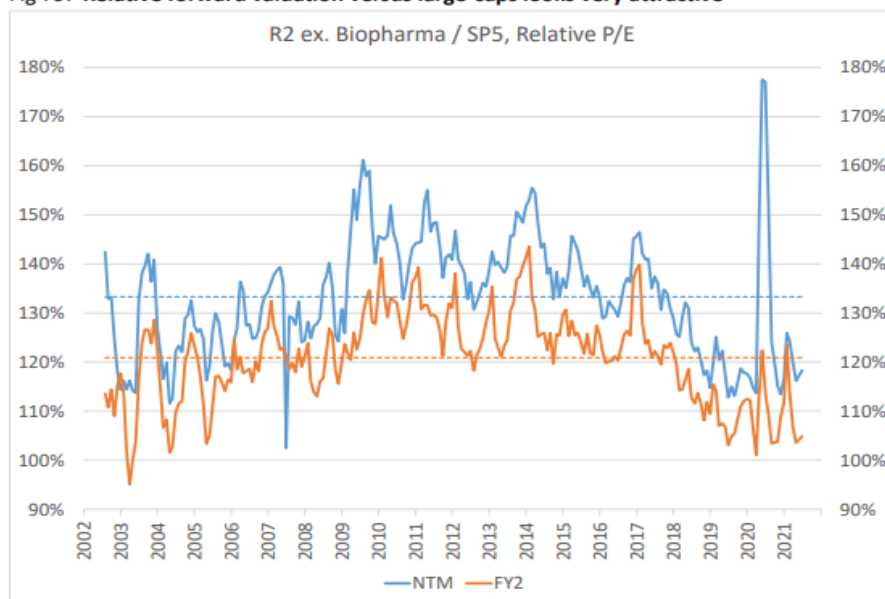
Fed officials communicated dovishly during the 2<sup>nd</sup> quarter driving real bond yields and the dollar lower. The Federal Reserve continues to signal they consider this year's inflation spike to be transitory and that they would be patient as they eventually reduce the degree of monetary stimulus in the system. More recently with the pandemic and economic backdrop looking much better, the Fed has begun discussing their tapering plans which has moved the dollar higher and to some degree is pressuring commodity prices.

The commentary we are hearing out of company management teams is for the most part quite bullish. Our team has been very active on the "virtual" conference circuit, conducting hundreds of one-on-one discussions with CEOs. Themes we routinely hear include supply chain pressures (such as shipping costs and port congestion), lack of worker supply and wage pressures (fighting stimulus money), tight inventories, increased capital project spending to come, amongst others. Margins are exceptionally good in much of corporate America which will likely be hard to improve on.

While the combination of stretched stock valuations, peaking economic growth, declining commodities and a less dovish Fed all suggest heightened downside risks for stocks, it remains the case there is enormous liquidity in the economy that has made it difficult for corrections to gain traction. As we saw with the modest 4.3% S&P 500 correction in May, investors tapped into their excess cash to buy the dip before it became material. It seems quite possible to us that excess liquidity may allow the continuation of the sideways consolidation seen in the S&P 500 since mid-April: a correction in time rather than a correction in price. We conclude for the time being the U.S. stock market is still giving the "all clear" signal despite a wall of worries. It is also good news that small caps continued to trade at a healthy P/E discount to large caps as seen on the chart on the next page.

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Fig 79. Relative forward valuation versus large-caps looks very attractive



Source: FRP and FactSet; as of 6/30/21; P/E calculated as sum of total market cap divided by sum of total earnings

The extreme volatility of 2020 has calmed, for the moment. However, severe factor rotations impacted the market in Q2, with a rapid reversal to growth preceded by a cyclical/value driven market through mid May—largely tied to the 10-year treasury yield decline from 1.77% to 1.24%. This is illustrated in the chart below. May also saw the resurgence of the “meme stocks” where just 9 of them contributed 15% of the overall returns in the Russell 2000.

Fig 39. Overall 2Q21 didn't exactly provide the ideal factor mix for most active managers

	Absolute Return (%)			Relative Return (%)		
	1Q21	2Q21	1H21	1Q21	2Q21	1H21
<b>Russell 2000</b>						
Extremely Shorted	38.5	51.6	109.9	25.8	47.3	92.4
Zombie Stocks	18.3	15.6	36.8	5.6	11.3	19.2
Highly Shorted	18.8	11.5	32.5	6.1	7.3	15.0
Penny Stocks	36.7	10.2	50.6	24.0	5.9	33.0
Unprofitable ex. HC/Tech	24.3	9.9	36.6	11.6	5.6	19.1
Low Share Price	31.7	9.7	44.5	19.0	5.5	27.0
High Leverage	17.7	9.3	28.6	5.0	5.0	11.1
Pure Value	29.6	7.7	39.6	16.9	3.4	22.1
Yield	27.9	6.5	36.2	15.2	2.2	18.7
High Beta	20.1	6.5	27.8	7.4	2.2	10.3
Low Leverage	9.6	3.6	13.5	(3.1)	(0.7)	(4.0)
Stock Issuers	6.2	3.5	9.9	(6.5)	(0.8)	(7.6)
High ROE	13.6	3.4	17.4	0.9	(0.9)	(0.1)
SPAC Birth	1.0	3.4	4.4	(11.7)	(0.9)	(13.1)
High ROIC	12.9	3.1	16.4	0.2	(1.2)	(1.1)
Low Volatility	12.4	2.6	15.3	(0.3)	(1.7)	(2.3)
Stability	13.5	2.1	15.9	0.8	(2.2)	(1.7)
Recent IPO/Spinoff	0.5	1.4	1.9	(12.2)	(2.9)	(15.7)
Capital Intensive Defensive	8.7	0.2	8.9	(4.0)	(4.0)	(8.6)
Dividend Growth	14.4	(2.1)	12.1	1.7	(6.4)	(5.5)

Source: FRP, FactSet, Morningstar; as of 6/30/21; Sorted by 2Q21 return

## 2nd Quarter Performance

The Alpha Fund was well positioned to take advantage of the volatile markets in Q2—our longs contributed +790 bps of net positive performance. Long profits were well distributed with the 5 most profitable during the quarter averaging about 80 bps each on a gross basis. Long profits were offset by 450 bps of net losses from the short book in the quarter. Of the 450 bps short book decline, 290 bps was from hedges and 160 bps from alpha shorts. About a third of the losses on the hedge book were in positions offsetting our profitable tech long book while the balance was split evenly between small cap and large cap market hedges. No individual short or long lost more than 50 bps on a gross basis during the quarter. Losses were very well controlled. Contributors to the Fund's performance during Q2 included consumer led companies, one large communication/software take out, and several solid tech names. We had some contribution as well from a number of company specific performances in energy, communication and real estate. It was broad variety of stocks both long and short during the quarter that produced the results. It is noteworthy that as we begin Q3 there are 40 new names in the Fund.

In sum, we feel we did a good job in terms of production, returns and loss control during a difficult quarter that included wild moves in heavily shorted names ("meme" stocks) and other low quality money losing companies that in many cases have hit other hedge funds. On a year-to-date basis, the Fund has delivered a positive US\$ 11.5% net return. We feel the market is presenting a more constructive environment for the Alpha Fund as correlations reduce and rotations calm down. The Alpha Fund ended the second quarter positioned at 92% gross long, offset by 90% gross short, and a net exposure of 2%. The Alpha Fund portfolio ended the quarter with a beta of 0.1 while correlation with the S&P 500 and the Russell 2000 during the quarter was -0.1 and 0.3 respectively.

## Outlook

Stock markets and corporate America are enjoying the fabled "easy" comparison to 2020's depressed results. History shows that economic momentum peaks usually about 12 months after recession lows. The initial momentum peaks after the last two severe recessions (December 1983 and April 2010) were followed by corrections in both commodities and stock prices. We also assume investors will soon begin discussing a post-covid world of larger government spending and perhaps higher taxation across the board—offset by a lean corporate America that needs to restock. Uncertainty will no doubt cause cross currents in the autumn period as investors fine tune their forecasts for 2022 making stock picking long and short critical.

The markets are digesting further signs that we are in the final days of the pandemic, despite outbreaks of the "Delta" variant. The challenge will be continuing to drive second doses and avoiding a fourth wave this Fall. It is clear the Americans have moved on and are calling for returns to the office and a return to almost normal pre-pandemic life. The world will wrestle with defining the form that work will take in the near future with "hybrid" likely being a near-term winning formula.

We continue to believe we are entering the middle phase of a post-recession market. The "easy" money (beta) was made off the March 2020 lows and we are entering a phase more suited to our strategy – namely stock picking long and short. We feel the market will reward companies delivering on their models and

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punish those who don't. The rising tide of multiple expansion is likely over. Nimble maneuvering will be key as the market decides which sector or stock will be a sustainable winner.

On behalf of the officers and employees of Formula Growth, allow us to also take this opportunity to sincerely thank you for your continued support. Should you have questions please do not hesitate to communicate with us directly.

Yours truly,

Formula Growth Limited

# Formula Growth Alpha Fund

## Second Quarter 2021 Investment Results

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

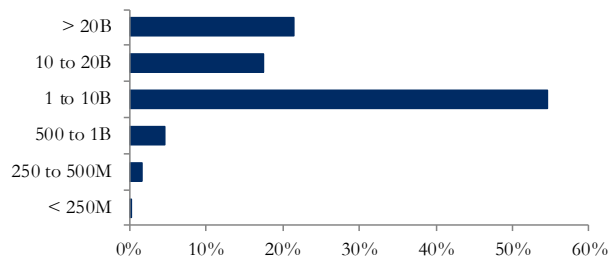
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2021	2.9%	3.3%	1.4%	(0.4%)	0.8%	2.9%							11.5%
2020	0.1%	(1.2%)	(8.2%)	4.9%	0.8%	0.2%	0.5%	(2.4%)	(0.1%)	1.6%	1.3%	(1.4%)	(4.4%)
2019	5.6%	0.7%	(1.1%)	0.7%	(1.6%)	(0.1%)	(1.7%)	(0.7%)	4.3%	1.0%	(0.3%)	(0.5%)	6.2%
2018	(1.3%)	1.0%	1.2%	2.1%	(0.2%)	(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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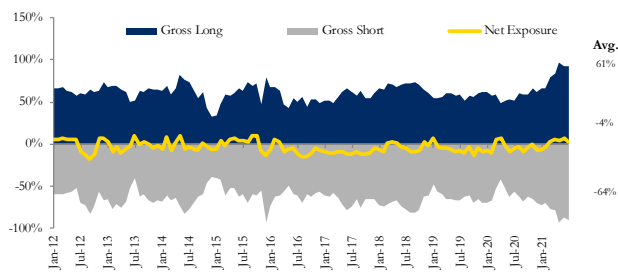
### Market and Beta Exposure

	31-Mar	Q2 Avg.	30-Jun	2021 Avg.
Gross Long	84.0%	92.3%	92.5%	83.0%
Gross Short	-78.1%	-90.5%	-90.2%	-81.9%
Net	5.9%	1.8%	2.4%	1.1%
Total Gross	162.1%	182.8%	182.7%	164.9%
Net Beta	0.01	0.00	0.11	-0.09

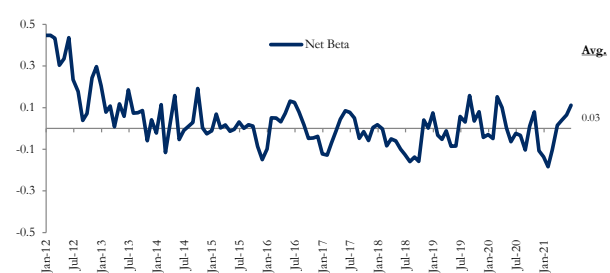
### Market Capitalization Exposure Breakdown



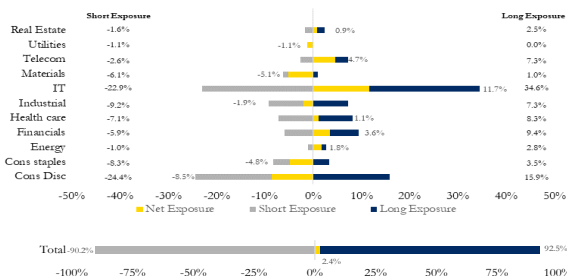
### Portfolio Neutrality in Terms of Dollar Exposure



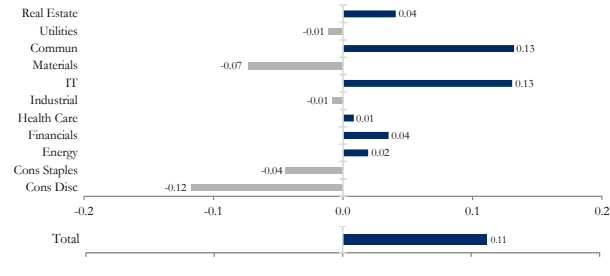
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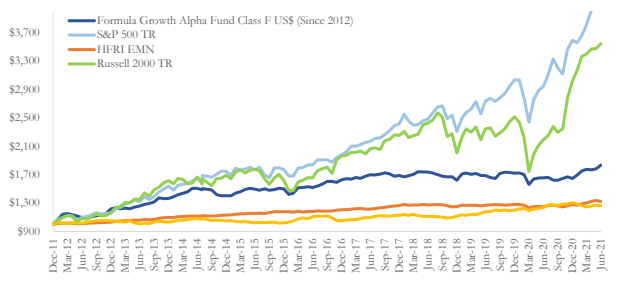
### Sector Neutrality in Terms of Dollar Exposure



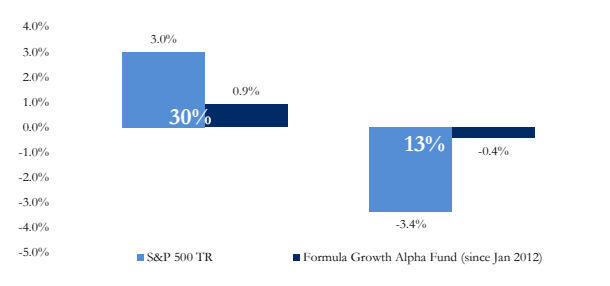
### Sector Neutrality in Terms of Beta Exposure



### Cumulative Return vs Peers, Stocks and Bonds



### Participation in Market Upside & Downside



Graphs above are either as at June 30th, 2021 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.