

# Formula Growth Alpha Fund

## Third Quarter 2021 Investment Results

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### Highlights:

- ◆ Difficult quarter shakes up equity investors and weighs on risk appetites
  - ◆ Strong short book performance controls risk during the 3rd quarter
  - ◆ Quantitative easing and higher rates are a risk in coming quarters but strong business conditions will offset
  - ◆ We expect continued volatility, stock picking and hedging will be key to alpha generation
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To all Investors,

### Third Quarter Performance

In September of the 3rd quarter, U.S. equities were buffeted as the Washington debt ceiling drama and concerns over a developing global energy crisis captured investors' attention. Surging energy prices weighed on global growth and the inflation outlook and interest rates adjusted higher with the 10-year U.S. treasuries increasing by 15 bps. The markets were shaken and volatility was high in both the equity and fixed income markets. Global uncertainty, especially, more recently, in Washington and Beijing, along with a shift toward tighter monetary policy is creating serious angst among investors and weighs on risk appetites.

The Formula Growth Alpha Fund decreased 2.7% U.S. net of fees during the 3rd quarter and increased 8.4% year-to-date, in line with its annual target return. This compares to a decline of 4.4% in the quarter for the Russell 2000 Index and a small increase of 0.6% for the S&P 500 Index. Year-to-date, these indexes increased 12.4% and 15.9%, respectively. Since a very strong first quarter small-cap stocks (i.e. the Russell 2000) have underperformed, especially during the 3rd quarter. If you disaggregate the Russell 2000 into its Growth and Value halves, the lagging performance can be attributed to the substantial underperformance by Growth. The Russell Growth (RG) stocks are up just 2.8% while the Russell Value (RV) stocks have increased 22.9%.

The quarter was tough on the Formula Growth Alpha Fund long book while short sales were profitable during the quarter. During the quarter, the 5 best stocks added approximately 300 bps of gross performance and included 3 profitable short sales while the 5 worst performers lost approximately 300 bps as well and were all from the long side of the book. On the other hand, year-to-date returns have been led by longs while shorts and hedges have slightly detracted, controlling risk very well. Technology and consumer sectors have been strong contributors throughout the year offset to small degree by the financial sector. Average gross exposure during the quarter was 176% while net exposure was 4% comprising 90% long and 86% short. We began the 4th quarter at 96% long and 92% short or gross 188% and net 4%.

As we roll into the 4<sup>th</sup> quarter, the overall setup looks good for an actively selected portfolio of well hedged small and mid-cap stocks. The last time smaller capitalization stocks have been as inexpensive relative to large-cap was in 1999 (Barclays). According to Bloomberg, small-caps are priced at 11.6 times cash flow versus 14.3 for large-caps and importantly, earnings growth for small-caps is accelerating faster than it is for large-caps (Jefferies). Volatility

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and the divergence in valuations plays to our stock picking strengths, long and short, and the market neutral construction of the Formula Growth Alpha Fund.

### The Outlook

We view the biggest risk for stock markets to be a significant acceleration in inflation that typically brings on a surge in bond yields and aggressive Fed action. Though mindful of this risk, we also feel a major change in Fed sentiment is unlikely and that we will see more of the same from Chairman Powell as we move in to 2022. Accordingly, the Federal Reserve likely presses ahead with tapering at its next meeting in November. We believe this upcoming QE tapering can be absorbed by the economy, not undercutting stock multiples, at least not yet with rates at very low absolute levels.

Though the September employment report suggested variant headwinds in the economy, and perhaps a dovish Fed reaction, we think a 4.8% unemployment rate along with major supply chain disruptions will keep inflationary pressures top of mind at the Fed and with investors. While the headline net gain of 194,000 jobs fell substantially short of consensus, we believe the shortfall was somewhat misleading. The miss was mostly in government payrolls while other more subtle elements like strength in hourly earnings and falling, rather than recovering, labor force participation fueled labor shortages.

As such, it is our sense the Federal Reserve desires to get on with tapering with a view to concluding quantitative easing policies around mid-2022 with rates likely rising as 2022 progresses on the tailwinds of strong business conditions. Until then, monetary policy will remain stimulative to the economy supporting equity valuations. Business re-openings post Covid will likely continue to scale higher as we exit 2021 and we begin 2022 providing additional support.

It is inevitable that supply chain bottlenecks and headaches lessen as conditions normalize around the globe, allowing inventories to rebuild. The consumer is in good shape with excess savings and a substantial lift in their collective net worth. This points to strong economic results with strong corporate earnings helping to support stock prices. Delivering on expected earnings will be the next test for corporate America and for the broader stock market in coming quarters.

We are also watching crowded positions where everyone seems to own the same popular stocks as another potential risk to the markets. Difficult year-over-year growth comparisons that companies begin to report in the 1<sup>st</sup> half of 2022 likely keep the large indexes sober making it a stock picker's market. We are confident our active bottom-up research process will identify winning stocks not easily identified by the passive index crowd.

### Update on the Team

We are pleased to announce that effective with the end of the 3<sup>rd</sup> quarter, Ari Kiriazidis will become Chief Operating Officer (COO) while maintaining his Chief Compliance Officer (CCO) responsibilities at Formula Growth. Besides his operational functions, he will be responsible for the business development activities of the firm. Ari has been with Formula since 2001 in a variety of roles, beginning on the research side and more recently as CFO. He is a McGill

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University graduate and a CFA Charterholder.

Gregory Gottlieb will be stepping up to Vice President, Finance and Operations. Greg joined Formula in 2017 from Deloitte as Treasurer and has deep experience auditing and advising investment management firms. He is a graduate of McGill University and a Chartered Professional Accountant.

Sarah Owen has been promoted to Vice President, Investor Relations spearheading all client interactions. Sarah joined in 2015 with an internship involving investor services, operations and compliance that evolved to a full-time position in 2017. She graduated from the John Molson School of Business (Concordia University) as a member of the Co-operative Institute and is a CFA Charterholder.

Ines Benjelloun joined the FG team in June as an Analyst, Investor Services and Operations. Ines is a graduate of McGill with a Bachelors in Finance and a concentration in International Business. She previously had internships at Manulife and RBC. We expect to add an additional member to the accounting and administration team by early November.

In September, we welcomed Jeremy Gould as Senior Vice President, Investor Relations & Distribution. Jeremy left CI Global Asset Management after more than 20 years covering Eastern Canada and will be responsible for Formula Growth's relationship management in the high net worth and advisory channels. Jeremy is a graduate McGill University.

In October, we also welcome Anik Paquet to the team as Senior Vice President, Institutional Distribution to head institutional business development efforts for Formula Growth. Anik spent over 20 years working with Atlanta-based, Invesco, in the alternative product space, covering the Quebec and Eastern Canada region for them.

Finally, FG is also adding to the investment management side of the business. Lucy Chher, MBA, CFA has re-joined FG as an Analyst and a consultant after previously serving as Director, Risk & Data Analytics and having been with the firm from 2012-2020. We also have 3 additional analysts coming onboard during the 4<sup>th</sup> quarter, Michael Koklas, Darragh Kavanagh, and Alex Moinard, all of whom will be based in Montreal and reporting to the portfolio management team. Michael is a graduate of Concordia University and will be leaving a Corporate Development role at Loop Industries to join FG. Darragh will be graduating from Concordia in December from the prestigious Kenneth Woods Portfolio Management Program after working an internship at Formula. Alex is originally from France and will be joining FG by year-end after completing his Masters in Applied Financial Economics at HEC. He is also a graduate of Concordia University (2019) with a Bachelor degree in Mathematics from Concordia University.

We are very excited about these additions to the team and how they will help us better serve our client base. Should you have any questions, please do not hesitate to communicate with us directly. 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.

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
2021	2.9%	3.3%	1.4%	(0.4%)	0.8%	2.9%	(1.8%)	(1.0%)	0.1%				8.4%
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%



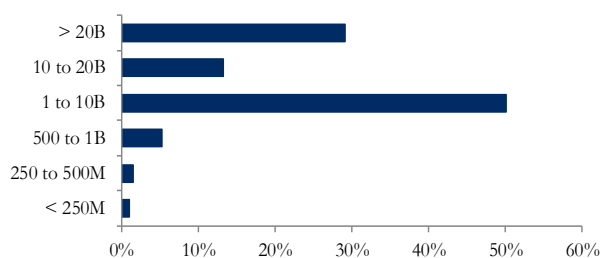
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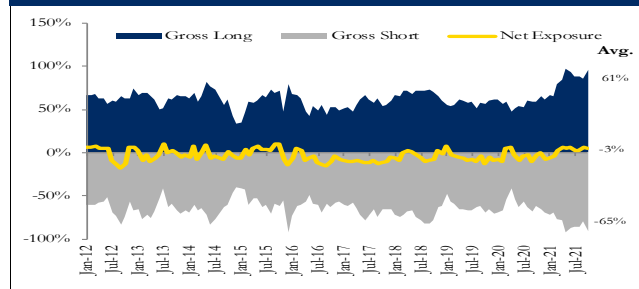
### Market and Beta Exposure

	30-Jun	Q3 Avg.	30-Sep	2021 Avg.
Gross Long	92.5%	90.0%	95.9%	85.3%
Gross Short	-90.2%	-85.8%	-91.6%	-83.2%
Net	2.4%	4.2%	4.4%	2.1%
Total Gross	182.7%	175.7%	187.5%	168.5%
Net Beta	0.11	0.02	0.07	-0.02

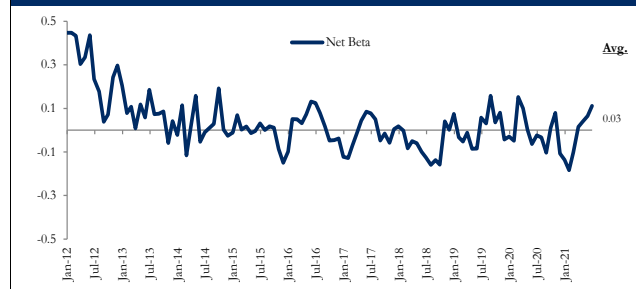
### Market Capitalization Exposure Breakdown



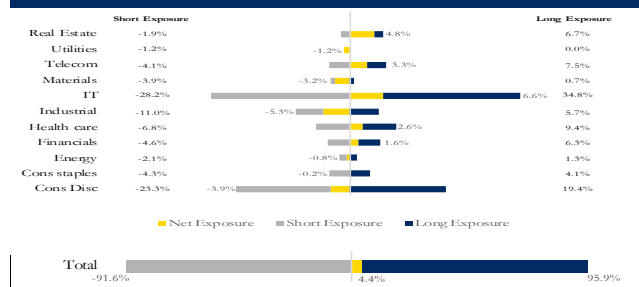
### Portfolio Neutrality in Terms of Dollar Exposure



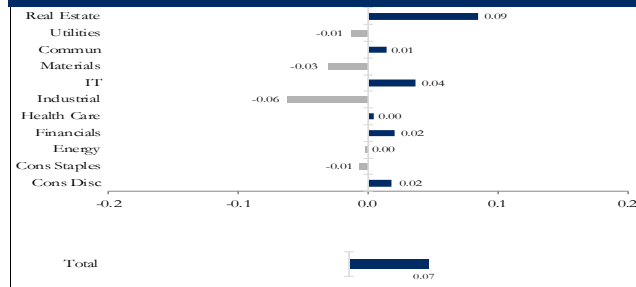
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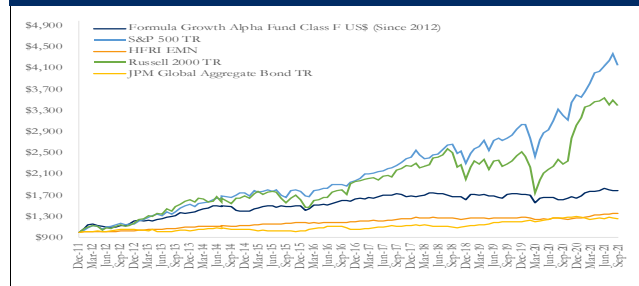
### Sector Neutrality in Terms of Dollar Exposure



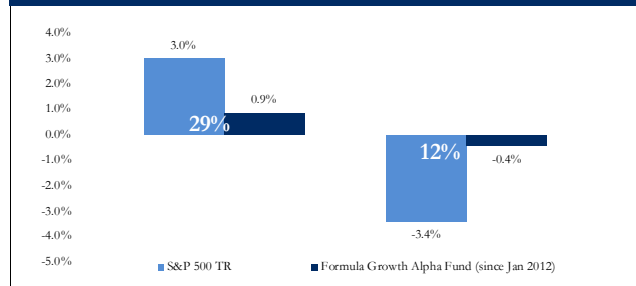
### Sector Neutrality in Terms of Beta Exposure



### Cumulative Return vs Peers, Stocks and Bonds



### Participation in Market Upside & Downside



Graphs above are either as at September 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.

## 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.

- ◆ 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.

## 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.
- ◆ 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.