

# Formula Growth Alpha Fund

## First Quarter 2022 Investment Results

### Highlights:

- ♦ The FG Alpha Fund had a positive quarter outperforming its peers, led by a very profitable short book
- ♦ Q1 was a tough market for equities especially growth stocks regardless of market capitalization
- ♦ Fears of recession, inflation and war are driving negative investor sentiment
- ♦ Corporate earnings estimates for 2022 are likely to decline

To all Investors,

The Formula Growth Alpha Fund ("FGAF") was up 2.9% U.S. during the 1<sup>st</sup> quarter, net of all expenses, with an average net exposure of 9.4% while the total return of the S&P 500 and the Russell 2000 was negative, down 4.6% and 7.5%, respectively. The average Equity Market Neutral Hedge Fund manager was down -1.5% during the 1<sup>st</sup> quarter of 2022 according to the HFRI Equity Market Neutral Index. This letter will review our performance and return attribution, and that of the markets, as well as our investment posture for the balance of 2022.

### 1<sup>st</sup> Quarter Attribution

During the 1<sup>st</sup> quarter, our longs detracted approximately -822 bps of negative gross performance. Long book losses were well distributed with the 10 most unprofitable during the year averaging about 68 bps each on a gross basis. Losses on longs were entirely offset by an estimated 969 bps of gross profits from the short book during the quarter while hedges used to control risk were also profitable contributing approximately 200 bps. Losses were well controlled during the quarter with the worst loss being a long position from the software sector at 121 bps. Eight of the top 10 winners during the quarter were shorts reflecting the underlying malaise in the equity markets during Q1. The negative stock market returns and sentiment is reflective of the fact that over half of the 3,000+ stocks on the NASDAQ are down more than 50% from their highs (Bloomberg). In sum, a recap of the quarter reveals very solid stock selection on the short side of the ledger and in line, but unfortunately, negative performance on the long side. The Alpha Fund ended the quarter positioned at 87% gross long, offset by 83% gross short, and net exposure of 4%.

### Market Commentary

Large-caps continued to lead the U.S. markets during the 1<sup>st</sup> quarter of 2022. Declines were significant for small-caps as it was the Russell 2000's 19<sup>th</sup> worst quarter since the small cap Index was conceived in 1979. The month of January was very poor, representing the 2<sup>nd</sup> worst January on record for the Russell, with only January 2009 worse. The stark difference between the performance of small-cap "growth" stocks and "value" stocks also persisted through the 1<sup>st</sup> quarter. We believe growth is lagging value stocks because earnings estimates or expectations have come down more sharply for growth stocks versus value. This is true for both large and small cap growth stocks over the past volatile year.

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Expectations have been too high for many growth stocks as excess liquidity and enthusiasm carried valuations to extremes. Investors hoped for unbounded upside, only to be disappointed by the reality of a slow down due to fraying supply lines, war, rising rates and inflation. These stocks were fertile ground for shorts during the 1<sup>st</sup> quarter. On the long side our traditional hunting ground in stock sectors that include technology, consumer discretionary and healthcare companies were down -13.8%, -17.3%, and -14.4%, respectively.

In general, we expect stocks, especially growth stocks, will resume sharper earnings growth in 2023 once 2022 is in the rear-view mirror. We have seen similar recalibration of earnings and changes in momentum several times over the past few unusual years. The chart below shows this phenomenon of shifting style preference between growth and value by comparing the relevant performance of the fastest growing stocks within the S&P 500 to the Index itself.

### STYLE TILT: Pure Growth / S&P 500

Since 3/31/2019. 3/31/2019 rebased to 100



Source: Fundstrat, Bloomberg

\* Pure Growth is based on the performance of S&P 500 Pure Growth (\$SPXPG) Index.

### Conclusion

After a tumultuous 1<sup>st</sup> quarter that featured front and center new geopolitical and Federal Reserve paradigms, along with decade high oil prices, and unpredictable market volatility, investors have had no time to catch their breath and they are being very cautious. The war in Ukraine sadly drags on without any visible resolution, China is balancing how to contain recent Covid outbreaks without damaging an already sluggish local economy, and the Fed is signaling an accelerated timeline for quantitative tightening. Financial markets are stuck in a difficult trading range as most asset classes have struggled to digest both a geopolitical upheaval and the prospects of substantial monetary tightening at the exact same time.

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There is little doubt there will be a recession, all cycles, even odd ones such as this, must come to an end. The chances of a Fed induced soft landing may be small but so is the chance of a calamitous contraction versus a simple garden variety slow down. The confluence of events has led to much higher than typical investor uncertainty. Accordingly, markets are taking a conservative approach especially as it relates to economic data and company fundamentals trying to price in as much as they can, as fast as they can, and as broadly as they can. As a result, riskier assets have been hit very hard.

In difficult and volatile times, we tend to review our investment portfolios with extra vigour, concentrating our conviction and tightening our position management, long and short. On the long side we have limited exposure to eastern Europe, given that we are principally U.S. Small to Mid-cap investors. We focus on well managed growth companies with pricing power to offset inflationary pressures and on reasonably priced stocks. On the short side our focus continues to be over priced stocks miss specified, with unjustified moats and estimated growth rates that are too high. The Alpha Fund portfolio, as usual, will remain market neutral through these tumultuous times.

On behalf of the officers and employees of Formula Growth, allow us to 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
2022	2.0%	(0.2%)	1.1%										2.9%
2021	2.9%	3.3%	1.4%	(0.4%)	0.8%	2.9%	(1.8%)	(1.0%)	0.1%	(3.5%)	(3.1%)	(1.2%)	0.2%
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%

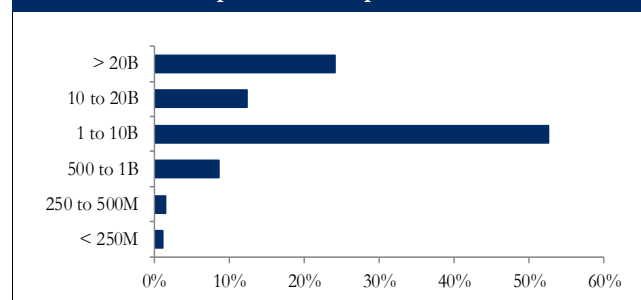
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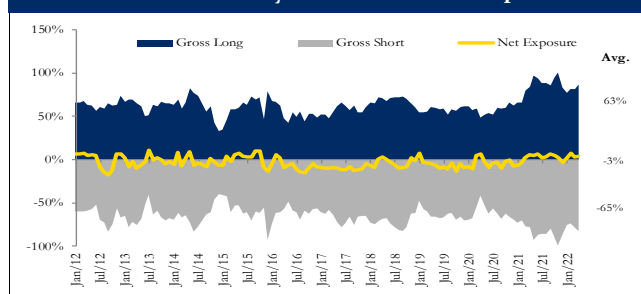
### Market and Beta Exposure

	31-Dec	Q1 Avg.	31-Mar	2022 Avg.
Gross Long	77.2%	80.9%	86.7%	80.9%
Gross Short	-75.7%	-71.5%	-82.4%	-71.5%
Net	1.5%	9.4%	4.3%	9.4%
Total Gross	152.9%	152.4%	169.1%	152.4%
Net Beta	0.07	0.18	0.15	0.18

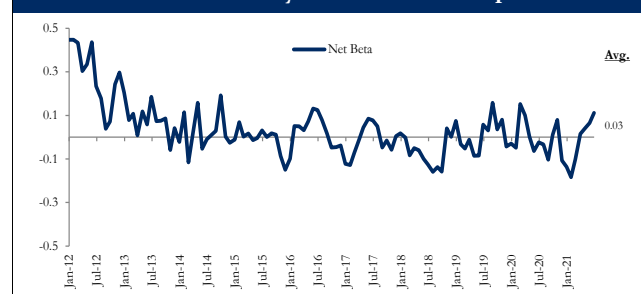
### Market Capitalization Exposure Breakdown



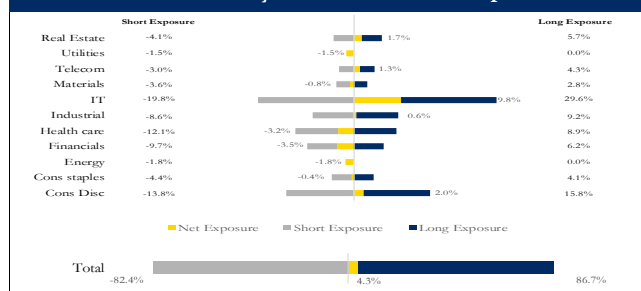
### Portfolio Neutrality in Terms of Dollar Exposure



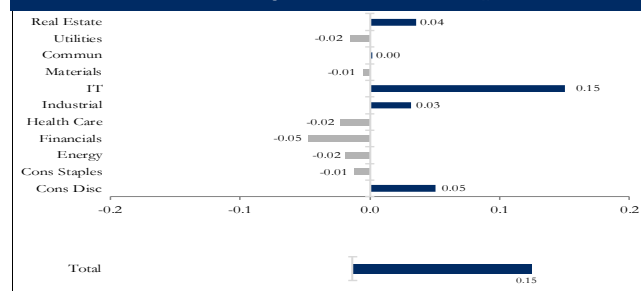
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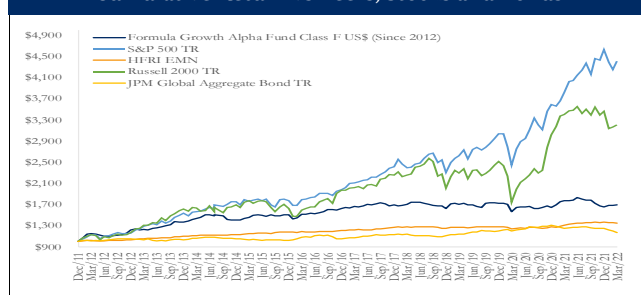
### Sector Neutrality in Terms of Dollar Exposure



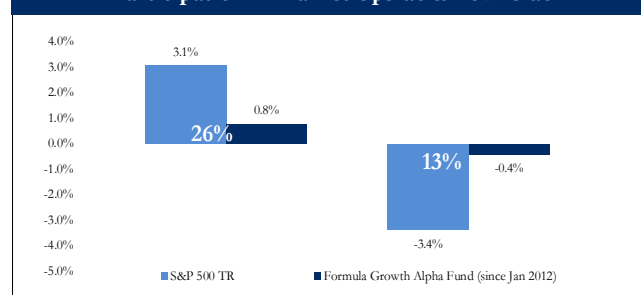
### Sector Neutrality in Terms of Beta Exposure



### 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.
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