FORMULA GROWTH LIMITED

July 18th, 2023

Formula Growth Alpha Fund

Q2 2023 Investment Results

Highlights:

- Solid year-to-date gains for the FG Alpha Fund
- The FG Alpha Fund is outperforming its peers in the HFR Index
- US markets remain concentrated given outstanding performance from mega-caps
- The FG Alpha Fund exposure levels will remain neutral in an uncertain macro environment

Dear Unitholders,

We are pleased with the FG Alpha Fund's performance of +5.8% in US dollars year-to-date. This is well ahead of our peers with the average equity market neutral Hedge Fund manager up about +2.2% (HFRI Equity Hedge Total) and compares favourably with the JPM Global Aggregate Bond Index +1.9% shown in the table below. The FG Alpha Fund was down -0.7% during the 2nd quarter following the 1st quarter's very strong 6.5%. The 2nd quarter return was effectively flat or in line with peers and bonds.

2023	FGAF Net of Fees (US$)	Market Indices (US$)		
		Russell 2000 TR	JPM Global Aggregate Bond Index	HFRI Equity Market Neutral
1st Quarter	6.5%	2.7%	3.1%	0.8%
2nd Quarter	-0.7%	5.2%	-1.1%	1.4%
YTD	**5.8%**	**8.1%**	**1.9%**	**2.2%**

The Fund's long returns continued to be broad-based during the 2nd quarter as we had contributions from a wide swath of the portfolio with technology again contributing strongly. Year-to-date, on a gross basis, our long book increased approximately +1855bps led by technology stocks up about 810bps. These very strong profits were unfortunately offset by about 1255bps of losses from shorts and hedges. Hedges were particularly hard hit by the strong Q2 stock markets. Overall losses were well controlled with the largest being a technology stock that was stopped out at about 100bps. No other loss was larger than approximately 70bps.

The Alpha Fund is constructed to run with zero to low net exposure to the stock market. During the 2nd quarter the Alpha Fund averaged net exposure of +1.7%. The Alpha closed the quarter at negative net exposure of -2.8% down from +0.7% at the end of the 1st quarter. Gross exposure declined to 182% with long exposure at +90% and short exposure at -92%. This was down from 200% gross at the close of the 1st quarter.

Outlook

As we begin the 2nd half of the year, investors remain stubbornly bearish according to Goldman Sachs with 59% bearish and just 25% bullish. These levels have not changed much since the 1st quarter of 2021. The 2nd quarter began with investors reeling from rapid-fire banking collapses and worries that a broadening crisis could disrupt the flow of money and credit to households and businesses. Today prime concerns are equity valuations and recession fears.

Concerns about the rich valuation of the market are understandable given the impact of the largest cap stocks on the main indexes and ETFs. The 2023 year-to-date return for the S&P 500 has been almost entirely driven by 7 stocks: Apple, Microsoft, Amazon, Alphabet, Nvidia, Meta and Tesla – now being referred to as the "Magnificent 7" by Wall Street. The Magnificent 7 are up 61% year-to-date. Their weight in the S&P 500 at the start of the year was 20% and has since ballooned to 28% of the Index. The popularity of these 7 stocks have driven their valuations to almost 30x expected 2025 earnings versus 19x for the S&P 500 Index (FactSet). Furey Research calculates that without the 7, the S&P 500 1st half return would be just 5.7% instead of the 16.9% reported. We note that without the Magnificent 7, the P/E multiple for the S&P 500 is a more reasonable 16x.

Overall, earnings are expected to decline by 7% as the 2nd quarter is reported but this drop will be driven mostly by significant declines in the energy (-45%) and material (-28%) sectors where we have little exposure. Excluding these sectors earnings will be up by about 1%. This could mark the low point of the current earnings cycle. Earnings for the 2nd half of 2023 are expected to be up an estimated 4% while 2024 is estimated to be up 11%.

With respect to the on-again, off-again recession, we have found over 63 years it is not very rewarding to be overly preoccupied with this macro issue. Two strong components to consider in any assessment of today's economic landscape post-pandemic are: inflated household net worth (and cash) as well as strong employment and jobs. These pillars underpin the economic resilience we are experiencing. Likely both these elements moderate in the coming quarters but we feel the economic fallout will not be severe.

Yield curve inversion has long been considered an economic harbinger of a recession. The beginning of a yield curve inversion generally points to the beginning of a recession 9 months later. The longest gap between inversion and the beginning of a recession was 16 months in 2006/07. The current yield curve inversion began in December 2022. Therefore, we will likely know whether this inverted yield curve results in a hard, soft or a smooth landing by this time next year.

Small-Cap Versus Large-Cap

Yet again, the large-cap S&P 500 Index proved difficult to outperform up 16.9% so far in 2023. The 2^{nd} quarter represents the 8^{th} quarter out of the last 9 quarters where the Russell small-cap has underperformed the large-cap S&P 500.

As we begin the 2^{nd} half of the year, the Magnificent 7 represent $11T in market cap with the balance of the other 493 stocks in the S&P 500 representing an additional $28T of market cap. This level of concentration by the biggest stocks has not been this extreme since 1973, the days of the "Nifty-Fifty". Of course, the 7 are great, well-run companies, in high-growth businesses with great balance sheets, but at this point we feel the current valuation likely reflects most of the good news. The law of large numbers ultimately works against the growth rates of companies as large as the Magnificent 7 – size eventually caught up to the Nifty-Fifty in the 1970s as well as the large tech stocks post the crash of 2000, driving valuations lower as investors hunted for alternatives.

Any pause in enthusiasm for the large-cap stocks would be good news for small-cap stocks that trade at a 40% discount (Furey Research). Dollars flowing towards small-cap stocks could have a significant impact on the Russell 2000. To put this into perspective, Apple's market cap alone is larger than the 2000 stocks in the Russell 2000 Index. By way of example, if just 1% of Apple's market cap flowed away, that amount could buy 20 average sized companies in the Russell.

Conclusion

Time will tell but we feel, while not cheap, equity valuations are reasonable, especially smaller-caps. The signaling from central banks is that they are most likely done raising rates. Lower rates and an earnings recovery are necessary ballasts to support equities, as is a soft landing. Otherwise, all bets are off. Accordingly, the Alpha Fund's conservative design can be part of a solution or a building block in portfolio construction providing lower risk participation in equity upside but with lower volatility.

We invite you to reach out to us to discuss any of the above or your investments with our team. Thank you for your continued support.

Yours truly,

Formula Growth Limited

Formula Growth Alpha Fund

Q2 2023 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
2023	5.2%	0.6%	0.7%	(0.3%)	1.5%	(1.8%)							5.8%
2022	2.0%	(0.2%)	1.1%	(3.0%)	(1.8%)	(4.4%)	(1.3%)	0.1%	(3.2%)	(1.3%)	(2.2%)	1.9%	(11.9%)
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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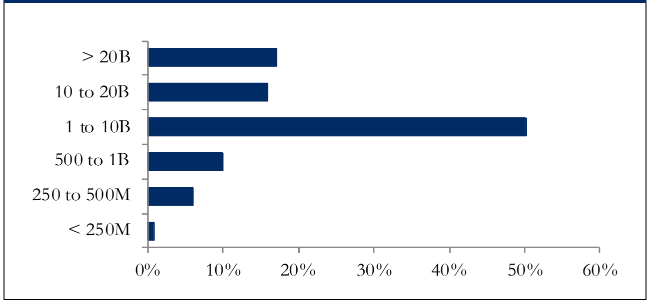
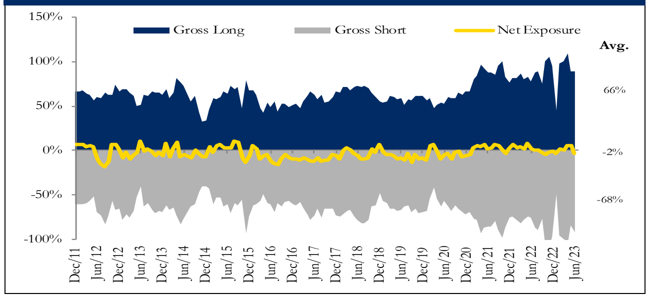
Market and Beta Exposure

	31-Mar	Q2 Avg.	30-Jun	2023 Avg.
Gross Long	100.2%	101.5%	89.6%	96.7%
Gross Short	-99.5%	-99.8%	-92.4%	-95.2%
Net	0.7%	1.7%	-2.8%	1.5%
Total Gross	199.8%	201.3%	181.9%	191.9%
Net Beta	0.07	0.09	0.05	0.09

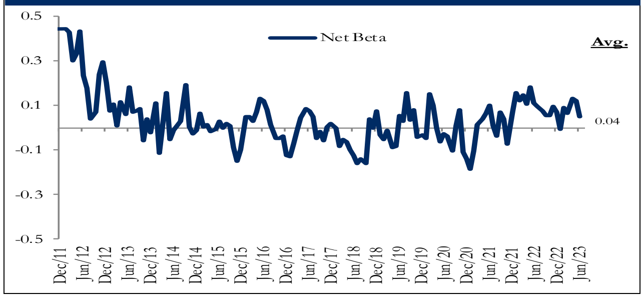
Market Capitalization Exposure Breakdown



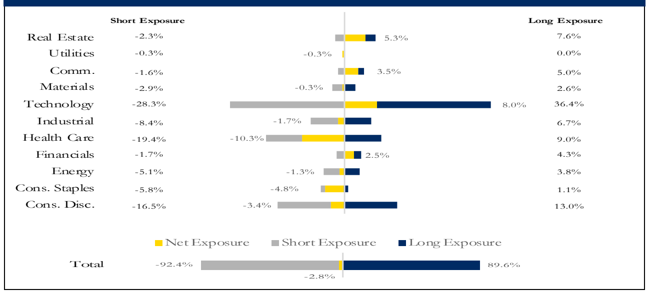
Portfolio Neutrality in Terms of Dollar Exposure



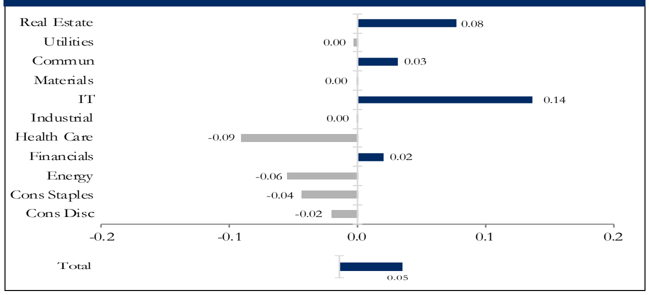
Portfolio Neutrality in Terms of Beta Exposure



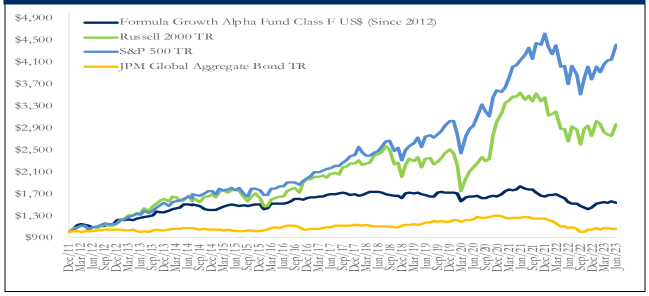
Sector Neutrality in Terms of Dollar Exposure



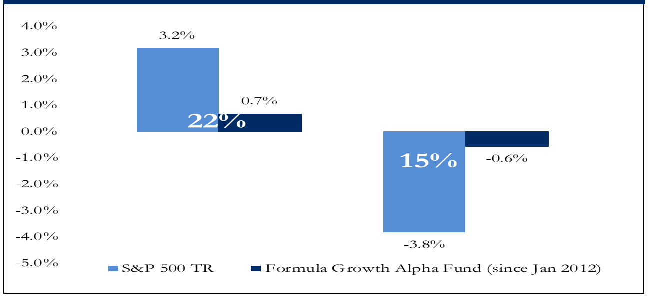
Sector Neutrality in Terms of Beta Exposure



Cumulative Return vs Stocks and Bonds



Participation in Market Upside & Downside



Graphs above are either as at June 30th, 2023 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.

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.

FORMULA GROWTH LIMITED

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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