FORMULA GROWTH LIMITED

October 16th, 2023

Formula Growth Alpha Fund

Q3 2023 Investment Results

Highlights:

- FG Alpha Fund gave back some of its 1st half returns in Q3 but is still ahead of its HF peers and the JPM Global Aggregate Bond Index year-to-date
- August and September collapse in asset prices driven by "higher for longer" interest rate commentary by the Federal Reserve
- Interest rates and inflation likely have peaked
- Volatility will remain high

Dear Unitholders,

It was a difficult quarter for the Formula Growth Alpha Fund (FGAF) to navigate. The Fund gave back some of its profits earned during the 1st half. Year-to-date, the FGAF is still 60 bps ahead of its peers (HFRI Equity Market Neutral) and 400 bps ahead of the JPM Global Aggregate Bond Index.

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%	0.6%
3rd Quarter	-3.2%	-5.1%	-3.5%	0.4%
YTD	**2.4%**	**2.5%**	**-1.6%**	**1.8%**

The reversal of strong stock market returns in the quarter (and for the year) was savagely quick during August and September, especially for small-caps and bonds. In the last 8 weeks of the quarter, the Russell 2000 declined -11%, the S&P 500 was down -6.5%, and Bonds represented by the ETF iShares 20+ (TLT) dropped -14%. Amazingly, this US Treasury Bond ETF is down a remarkable -54% over the last three years. The Table below from Furey research shows other tough August and September periods for small-caps. Strange as it may seem, usually a rough patch in August and September foreshadows a solid 4th quarter.

Fig 3. **It was the R2's 7th worst Aug/Sep – 4th Quarters are usually up strongly afterward**

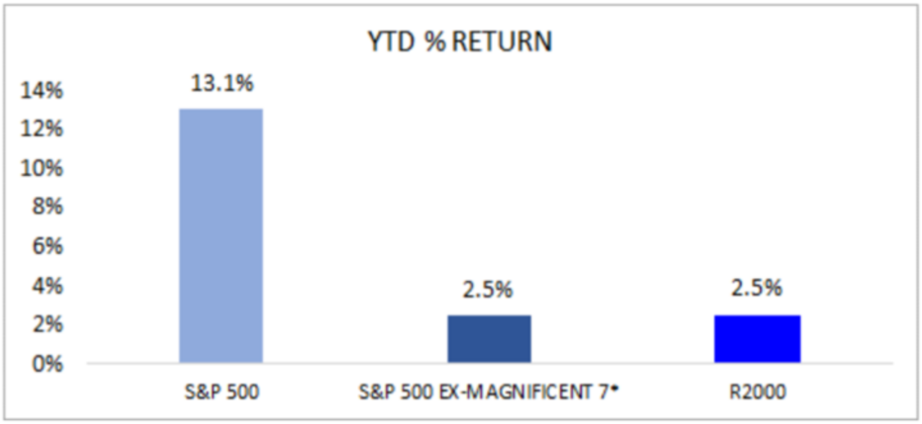
	Year	Aug/Sep	4th Qtr
1	1990	-21.0%	5.1%
2	2011	-18.9%	15.5%
3	2001	-16.3%	21.1%
4	1981	-15.5%	10.2%
5	1998	-13.1%	16.3%
6	2022	-11.4%	6.2%
7	2023	-11.0%	--
8	2015	-10.9%	3.6%
9	2002	-7.4%	6.2%
10	1985	-7.0%	16.2%
11	2008	-4.6%	-26.1%
	Avg	-12.5%	7.4%
	%Pos	*0%*	*90%*

Aug/Sep '23 was the R2000's 7th worst Aug/Sep combo going back to '79. Outside of the GFC, the fourth quarter was usually up strongly after poor Aug/Sep's.

Source: Furey Research Partners and FactSet. Based upon quarterly returns back to 1Q79.

The S&P 500 is up 13.1% year-to-date and outperforming small-caps by a sizeable margin. Without the mega-cap "Magnificent 7" (Microsoft, Apple, Amazon, Tesla, Nvidia, Alphabet and Meta), the large-cap S&P 500 (aka S&P 493) performance would be more in line with the Russell 2000 up 2.5% (Furey Research). All of the outperformance is due to these 7 stocks which are up 55% YTD, led by Nvidia's near 200% gain. Otherwise, the average U.S. stock on an unweighted market-cap basis is flat year-to-date.

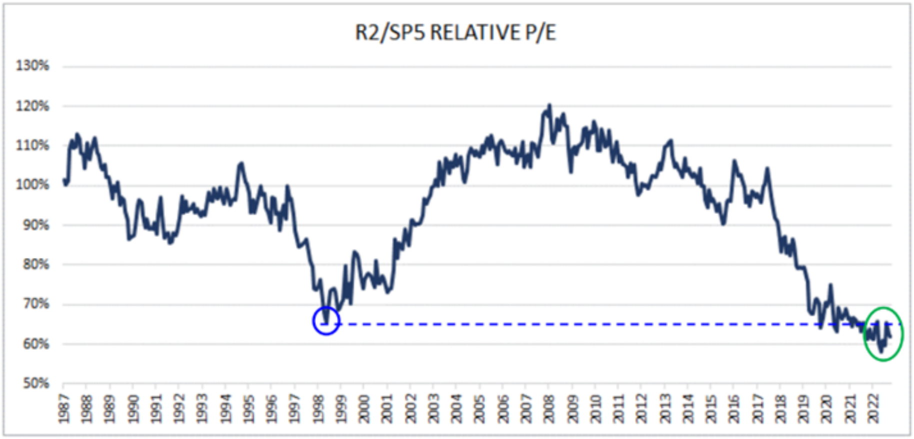
Fig 7. **Without the "Magnificent 7", R2 & SP5 would be even YTD**



*Source: Furey Research Partners and FactSet. *Magnificent 7 are Apple, Microsoft, Amazon, Nvidia, Alphabet, Tesla and Meta. Data as of 9/30/23.*

As we begin the 4th quarter, small-cap relative valuation continues to be very attractive. There has been no other time in the Russell 2000's history that the Index has been as deeply discounted relative to large-caps. The earnings multiple is currently less than 14x versus the 20x for the S&P 500.

Fig 91. **Relative to large-caps, small-caps have never been more attractive than of late**



Source: Furey Research Partners and FactSet. Data as of 9/30/23. Represents median P/E using latest available trailing 12-month earnings. Profitable companies only.

Attribution

Energy was the only stock market sector in the Russell 2000 with meaningful positive 3Q 2023 returns (+19%). Technology stocks were significant laggards during Q3 (-9%) as were health care stocks (-15%). These are two traditional sectors in which we hunt for stocks and typically overweight.

On a year-to-date basis, we have seen meaningful contribution from our long positions, approximately 750 bps of gross return, while shorts and hedges have detracted about 500 bps. The sectors that hurt us in Q3 were generally very profitable through July. We remain excited by the opportunities in the portfolio as we begin Q4.

During the 3rd quarter, risk control was satisfactory with only 2 longs broaching stop loss with both positions reduced. Otherwise, losses in the quarter were broad based from the long side and concentrated in sectors where we are traditionally exposed such as health care, consumer, and financials. After a strong July, most of the losses were accrued in the downdraft of August and September. The short book was profitable across the board during the quarter. During the 3rd quarter, the FGAF averaged net exposure of 6% and gross exposure of 197%, ending the quarter at around these same levels.

Outlook

There is no doubt small-cap stock price performance has been impacted this year from a second straight year of declining earnings for the asset class. The good news is 2024 earnings are expected to rebound more than 20%. Since 1979, this is only the fourth time in the Russell's history that earnings for the Index have declined in two consecutive years. The three previous times were all during recessions: 1990, 2008 and 2020. The earnings growth in the year after those periods was decidedly strong; ranging from 20% to 114%. On the other hand, large-caps led by the Magnificent 7 are on pace to grow earnings by 5% in 2024 (Goldman Sachs). This upcoming 2024 shift in earnings momentum to small-caps, along with relative low valuation, paints a strong relative argument for owning small-caps heading into 2024.

Inflation is still too high for the Federal Reserve's taste. For some time, an inverted yield curve pattern has been signaling that a broad recession is likely. Until the end of July, many investors felt a soft landing for the economy was in the cards and stocks acted well. A series of "rolling sector" recessions seemed to be taming price inflation without a major U.S. economic slowdown. Hawkish commentary from the Fed in early August spooked both the bond and equity markets as the Fed Chairman stated rates would need to stay higher for longer to achieve the Fed's 2% inflation target. Since then, longer term rates have risen to acknowledge the stark reality that the 5.25% Fed Funds rate will persist for longer than most investors thought.

Higher long-term interest rates are a benefit to savers with cash who hold on to maturity. Yet, higher borrowing costs are disruptive to consumers (credit cards, mortgages, car loans) which in turn, depending on severity, can hit corporate profits and raise the cost of capital. Uniquely for the U.S., a stronger dollar can also dampen global enthusiasm for their goods and services. There is little doubt the impact of rates quickly rising 500 bps over the last 18 months has been very unsettling and is having a chilling effect on financial markets.

Conclusion

Our view is inflation will continue its downward trajectory allowing rates to moderate and markets to rebound without a significant economic downturn given the resilience evident in the U.S. economy. Continued hawkish monetary policy will be somewhat offset by fiscal spending and reasonable corporate profits that will help to maintain labour markets around these levels.

Volatility in the equity markets should remain high allowing for solid opportunities long and short.

We invite you to reach out to us to discuss your investments without team regarding returns, portfolio positioning, and attribution. 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

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%)	1.6%	(2.3%)	(2.5%)				2.4%
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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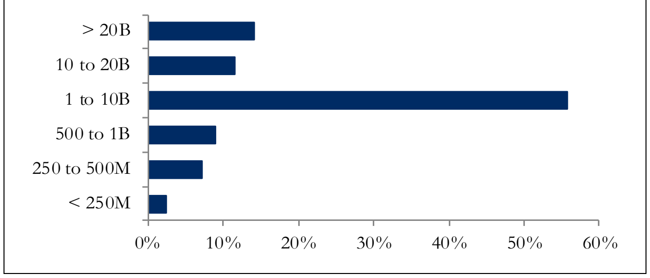
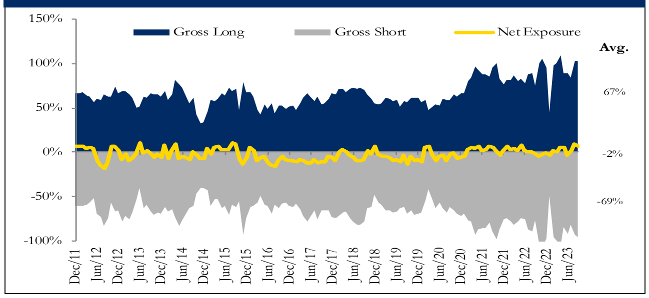
Market and Beta Exposure

	30-Jun	Q3 Avg.	30-Sep	2023 Avg.
Gross Long	89.6%	101.1%	102.8%	98.2%
Gross Short	-92.4%	-95.4%	-95.7%	-95.3%
Net	-2.8%	5.7%	7.1%	2.9%
Total Gross	181.9%	196.5%	198.5%	193.5%
Net Beta	0.05	0.15	0.15	0.11

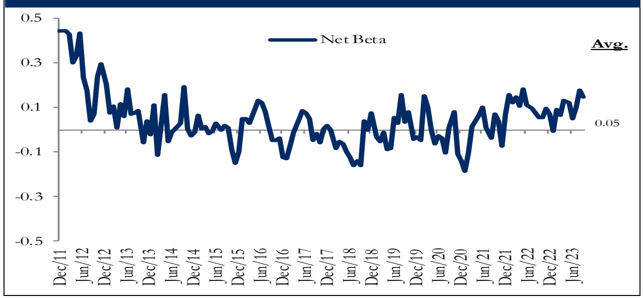
Market Capitalization Exposure Breakdown



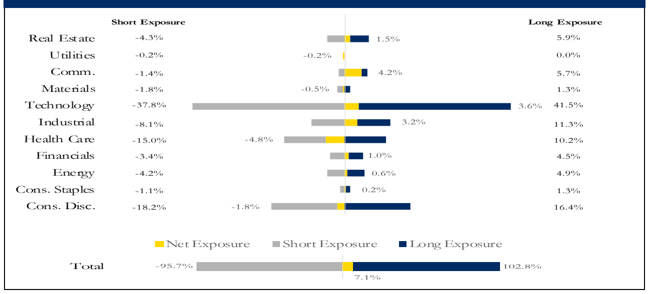
Portfolio Neutrality in Terms of Dollar Exposure



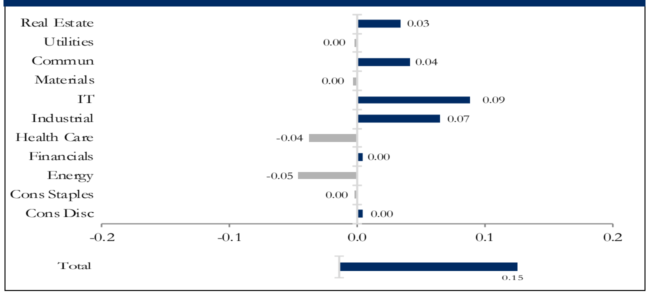
Portfolio Neutrality in Terms of Beta Exposure



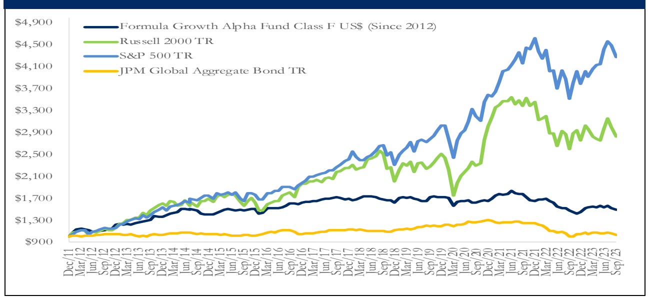
Sector Neutrality in Terms of Dollar Exposure



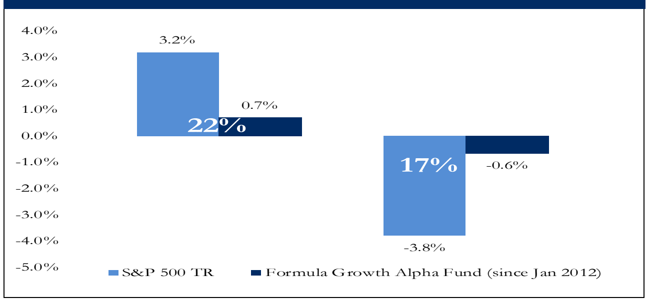
Sector Neutrality in Terms of Beta Exposure



Cumulative Return vs Stocks and Bonds



Participation in Market Upside & Downside



Graphs above are either as at September 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.

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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.

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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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