
FORMULA GROWTH

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

DECEMBER 31, 2009

FORMULA GROWTH FUND

**INCEPTION DATE
JUNE 30, 1960**

**PORTFOLIO MANAGEMENT TEAM
FORMULA GROWTH LIMITED**

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 514-288-5136, by writing to us at 1010 Sherbrooke St. West, Suite 2300, Montreal, Quebec, H3A 2R7 or by visiting our website at www.formulagrowth.ca or SEDAR at www.sedar.com. Security holders may also contact us using one of these methods to request a copy of the investment fund's proxy policies and procedures, proxy voting disclosure record and quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategies

Formula Growth Fund seeks to achieve long-term growth through capital appreciation by investing primarily in small to medium-sized American companies judged to have above-average growth potential or to be undervalued. Formula Growth employs a number of quantitative and qualitative analytical tools in the process of identifying superior investment opportunities. Formula Growth invests in U.S. growth companies with outstanding management, strong brand identity or prospects, a dedicated customer focus, and a record of demonstrated financial performance. Security selection is based on "bottom-up" research of individual companies rather than on broader economic analysis or themes. Less emphasis is placed on macro-economic, interest rate, market or sector forecasting. Earnings per share growth is the dominant variable monitored in the management of Formula Growth portfolios. The formula employed is an earnings growth rate of a minimum 20% per year.

In growth investing, diversification is critical. Formula Growth portfolios employ significant diversification by holding a relatively large number of stocks. This ensures that the risk of any particular security to the overall portfolio is predetermined and can be effectively managed over time.

Risks

There are risks associated with an investment in the Fund, as a result of, among other considerations, the proposed nature and operations of the Fund. An investment in Units should only be made after consultation with independent qualified sources of investment and tax advice. An investment in the Fund is speculative and involves a high degree of risk and is not intended as a complete investment program. There is a risk that an investment in the Fund will be lost entirely or in part. Only investors who do not require immediate liquidity of their investment and who can reasonably afford a substantial impairment or loss of their entire investment should consider the purchase of Units.

There is no guarantee that an investment in Units will earn any positive return in the short or long-term. The value of the Units may increase or decrease depending on market, economic, political, regulatory and other conditions affecting the Fund's portfolio. Investment in Units is more volatile and risky than some other forms of investments. All prospective Unitholders should consider an investment in the Fund within the overall context of their investment policies. Investment policy considerations include, but are not limited to, setting objectives, defining risk/return constraints and considering time horizons. Furthermore, there can be no assurance that the Fund will be able to achieve its investment objectives.

Many of the investments in the Fund, at any time, will consist of securities denominated in currencies other than the Canadian dollar (primarily the U.S. dollar) and, accordingly, the Net Asset Value will, when measured in Canadian dollars, be affected by fluctuations in the value of such currencies relative to the Canadian dollar.

As at December 31, 2009, approximately 2/3 of the units issued were held by 50 unitholders. In the unlikely but possible scenario that the majority of those unitholders decide at the same time and as a group, to give the required 10 days redemption notice, the net asset value of the fund may be negatively impacted. It is important to recognize that the manager believes that the Fund's portfolio is very liquid and consists of publicly traded stocks on recognized stock exchanges. Those stocks may be liquidated under normal market conditions in a matter of hours to satisfy any size redemption request. In addition, as stated in the syndicate agreement "should the manager reasonably considers that i) the amount of redemption requested would result in a disorderly liquidation of the Fund's investments or ii) there exists a state of affairs that is outside the normal course of business as a result of which the disposal of the Fund's investments is not reasonably practicable or would not determine fairly the value of its assets, then the manager shall have the right, in its discretion, to delay the withdrawal date for up to two additional valuation dates".

Subscription and Redemption of Units

New members to the Fund may be admitted by consent of the Manager. New and existing members may subscribe to new units at a price equal to the "Transactional" net asset value (NAV) of such unit at the date of subscription, which is computed in the middle and end of the month. The Manager reserves the right, in its sole discretion, to accept or reject subscriptions for units.

Any member of the Fund may redeem one or more units at the NAV, on the dates described above, by giving notice to the Manager at the address of the Manager in either Montreal, Quebec or other such place as the Manager may determine; such notice shall be given by registered post and shall be received at least ten (10) days prior to the redemption date. The said notice shall state the number of units which are to be redeemed. Payment for the units shall be made within three (3) days of the NAV computation upon which the redemption is based.

Results of Operations

The net asset value of the Fund as of December 31, 2009 was \$2914.47 per unit in Canadian dollars. This represents a 21.4% increase for the year in Canadian dollars. The strength in the Canadian dollar in 2009 substantially hurt our reported U.S. dollar returns. In U.S. dollars, the Fund rose 42.1% for the year. Year to date our results are well ahead of the Indexes listed in the table below and ahead of the average U.S. Small-cap Growth Manager who gained 36.2%.

	Dec. 31/09	Dec. 31/08	1 Year
Fund Cdn	\$2,914.47	\$2,400.55	21.4%
Fund U.S.	\$2,784.70	\$1,960.27	42.1%
S&P 500	1,115.10	903.25	23.5%
Russell 2000	625.39	499.33	25.2%
Dow	10,428.05	8,776.39	18.8%

As we began 2009 the meltdown in global financial markets threatened a global depression. Most stock markets were down unprecedented amounts during 2008 and Formula Growth Fund was not immune to the carnage. It was our belief, given the extent of the collapse, that the real possibility of depression was well reflected in stock markets around the globe. Therefore, we strongly differed with the consensus view that stocks should be shunned.

Our decision to remain fully invested served us well in 2009 as the Fund went on to register its 9th best year since 1960. We were relieved to close out the decade with a strong year. We hope it marks the beginning of a run of prosperous years for U.S. stocks and Formula Growth Fund.

The past decade will be remembered for its leveraged asset bubbles, two severe recessions, 10% unemployment, terrorism, jailed CEOs, and over-zealous yet incompetent regulators and politicians. It is little wonder the decade is a lost one for the world's equity markets. Since 1999 the MCSI World Index, covering the developed markets, is down in the aggregate 20% while the U.S. market as measured by the S&P 500 is down 24%. The Fund is down 8% U.S. over the decade. Only the 1930's are comparable to the poor performance of the past ten years. Essentially only the narrow emerging and commodity markets have managed positive aggregate returns this past decade.

Given the negative long term results most investors remain sceptical of the stock market. For instance since last March investors have pulled \$13 billion out of U.S. stock mutual funds and poured \$239 billion into bond funds according to Morningstar Inc. We believe investors have not broadly accepted the fact that we are in the early stages of a potentially big economic recovery. Given the cash on the sidelines there is plenty of firepower available to drive stock prices higher when the scepticism subsides.

Liquidity and a poor trailing 10 year performance for stocks are not sufficient reasons alone to propel stock prices higher in coming years. Fundamentals must also be aligned. The poor performance has made stock valuations much less expensive than their lofty levels at the beginning of the decade. In this low interest rate era, cheap valuations and resumption in growth in earnings per share (after the hiatus of 2007-2009) will prove to be a powerful antidote to the malaise of the 2000's. We remain bullish on stocks from here.

Recent Developments

No recent developments to report on at the date of publication.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past 5 years. This information is derived from the Fund's audited annual financial statements.

Net Asset Value per Unit (1) (2)	2009	2008	2007	2006	2005
Net Asset Value, beginning of year	<u>2400.55</u>	<u>3,550.67</u>	<u>4,168.33</u>	<u>3,785.98</u>	<u>3,635.04</u>
Increase (decrease) from investment operations					
Total revenues	6.31	9.96	15.53	9.83	9.64
Total expenses	(29.80)	(30.50)	(45.90)	(43.25)	(41.36)
Realized capital gains (losses)	(90.29)	(189.00)	393.45	66.69	200.62
Unrealized capital gains (losses)	636.70	(932.85)	(967.36)	349.08	(17.96)
Transaction costs on purchase and sale of investments (2)	<u>(9.00)</u>	<u>(7.73)</u>	<u>(13.98)</u>		
Total increase (decrease) from investment operations (1)	<u>513.92</u>	<u>(1,150.12)</u>	<u>(618.26)</u>	<u>382.35</u>	<u>150.94</u>
Deemed distribution from investment operations	-	-	-	382.35	150.94
Utilization of tax losses carried forward and other tax deferred adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>(382.35)</u>	<u>(150.94)</u>
Total deemed distribution per unit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net asset value, end of year (1)	<u>2,914.47</u>	<u>2,400.55</u>	<u>3,550.67</u>	<u>4,168.33</u>	<u>3,785.98</u>

(1) Net asset value is based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.

(2) On January 1, 2007 the fund adopted new accounting standards (sections 3855 and 3861) issued by the "CICA", without prior period restatement as required by the "CICA". Accordingly comparative figures for the years 2006 and 2005 have not been restated. The new standards require that the fair value of investments listed on an active market be determined by the closing bid price. The new standards also require that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be expensed in the current period as opposed to being added to the costs and deducted from the proceeds of purchases and sales of investments, respectively.

Ratios and supplemental data	2009	2008	2007	2006	2005
Net asset value (000's), end of year	152,033	143,488	230,914	297,769	290,176
Number of units outstanding, end of year	52,165	59,773	65,034	71,436	76,645
Management expense ratio (3)	1.08%	1.00%	1.13%	1.09%	1.07%
Portfolio turnover rate (4)	38%	28%	43%	32%	37%
Trading expense ratio (5)	0.33%	0.24%	0.34%	0.34%	0.35%

(3) Management expense ratio is based on the total expenses, excluding commissions and other portfolio transaction costs, for the stated period and is expressed as an annualized percentage on the average net assets during the period.

(4) The Fund's portfolio turnover rate indicates how actively the fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the fund.

(5) The trading expense ratio represents total commissions expressed as an annual percentage of the average net assets during the period.

RELATED PARTY TRANSACTIONS

Management Fees

A percentage of net assets is paid monthly to the Manager of the Fund based on 1/12 of 1% of the net assets at the end of each month. This fee is paid to compensate the Manager for managing the portfolio and for normal expenses of operating the Fund. During the year, the fund paid management fees of \$1.4 million. Services provided in consideration of this fee are as follows:

Portfolio Management	93.1%
Normal Operating Expenses	<u>6.9%</u>
	100.0%

Securityholder Activity

Throughout the year, \$3.9 million flowed into the Fund by way of subscriptions and \$23.0 million flowed out of the Fund as a result of redemptions.

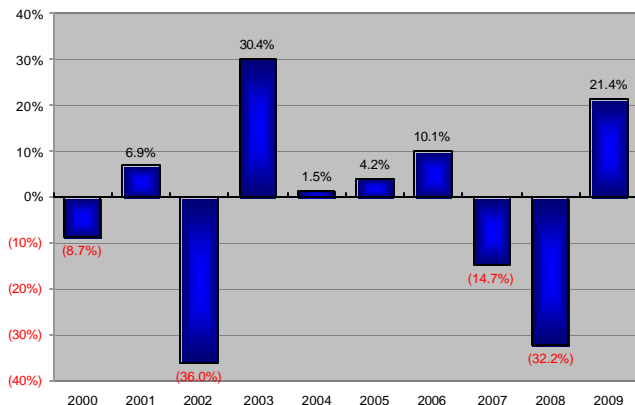
PAST PERFORMANCE

The Fund's past performance is not necessarily indicative of how the Fund will perform in the future.

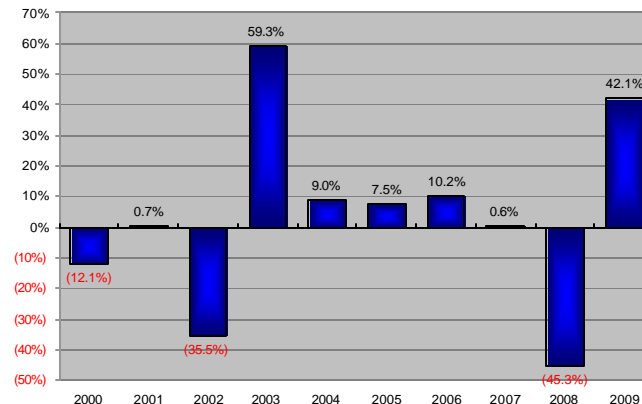
Annual Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by December 31 of each financial year.

Expressed in Canadian Dollars:



Expressed in U.S. Dollars:



Annual Compound Returns

Expressed in Canadian Dollars:

	1 Year	3 Years	5 Years	10 Years
Formula Growth Fund	21.4%	(11.2%)	(4.3%)	(4.0%)
Russell Growth	14.1%	(8.0%)	(2.5%)	(5.0%)
S&P 500	5.5%	(11.0%)	(4.4%)	(5.8%)

(Indices exclude reinvested dividends. Unit value is net of the 1% management fee.)

Expressed in U.S. Dollars:

	1 Year	3 Years	5 Years	10 Years
Formula Growth Fund	42.1%	(8.0%)	(1.6%)	(0.9%)
Russell Growth	33.5%	(4.6%)	0.3%	(1.9%)
S&P 500	23.5%	(7.7%)	(1.7%)	(2.7%)

(Indices exclude reinvested dividends. Unit value is net of the 1% management fee.)

S&P 500 Index

A market capitalization-weighted price-only index comprised of 500 widely held common stocks listed on the New York Stock Exchange, American Stock Exchange and Over-The-Counter market. Although the S&P 500 focuses on the large-cap segment of the market, with over 80% coverage of the market capitalization of U.S. equities, it is also an ideal proxy for the total market.

Russell 2000 Growth Index

A capitalization-weighted price-only index which measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values. As of Dec 31st 2009 the average market capitalization was approximately \$1 billion; the median market capitalization was approximately \$400 million. The largest company in the index had an approximate market capitalization of \$4.5 billion.

PORTFOLIO OVERVIEW

Top 25 Holdings

Liberty Global Inc	4.6%
Americredit Corp	3.0%
Cash	2.7%
Coinstar Inc	2.6%
LKQ Corp	2.6%
Nic Inc	2.6%
Euronet Worldwide Inc	2.1%
JB Hunt Transport Services Inc	1.9%
Celgene Corp	1.9%
First Cash Financial Services Inc	1.7%
Ryanair Holdings Inc	1.7%
Petrohawk Energy Corp	1.7%
Solera Holdings Inc	1.5%
Dollar Financial Corp	1.4%
Mednax Inc	1.4%
Plains Exploration & Production Co	1.4%
DG Fastchannel Inc	1.3%
Cepheid Inc	1.3%
Gamestop Corp	1.3%
Geoeeye Inc	1.2%
The Providence Service Corp	1.2%
Paetec Holding Corp	1.2%
Copa Holdings S.A.	1.2%
Cash America International Inc	1.2%
McMoran Exploration Corp	<u>1.2%</u>
TOTAL	45.9%

Weighting by Sector

Cash	2.7%
Consumer	16.0%
Energy	14.7%
Finance	9.0%
Healthcare	12.2%
Technology	28.3%
Transportation	16.6%
Other Net Current Assets	0.5%
	100.0%
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Net Assets (CAD)	\$152,033,659
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The investment portfolio may change due to the ongoing portfolio transactions carried out by the Fund. A quarterly update is published on our website at www.formulagrowth.ca or may be obtained upon request.

FORMULA
GROWTH

1010 Sherbrooke St. West, Suite 2300, Montreal, Quebec, H3A 2R7
telephone ♦ 514 288 5136 fax ♦ 514 844 4561
www.formulagrowth.ca