

FORMULA GROWTH

L I M I T E D

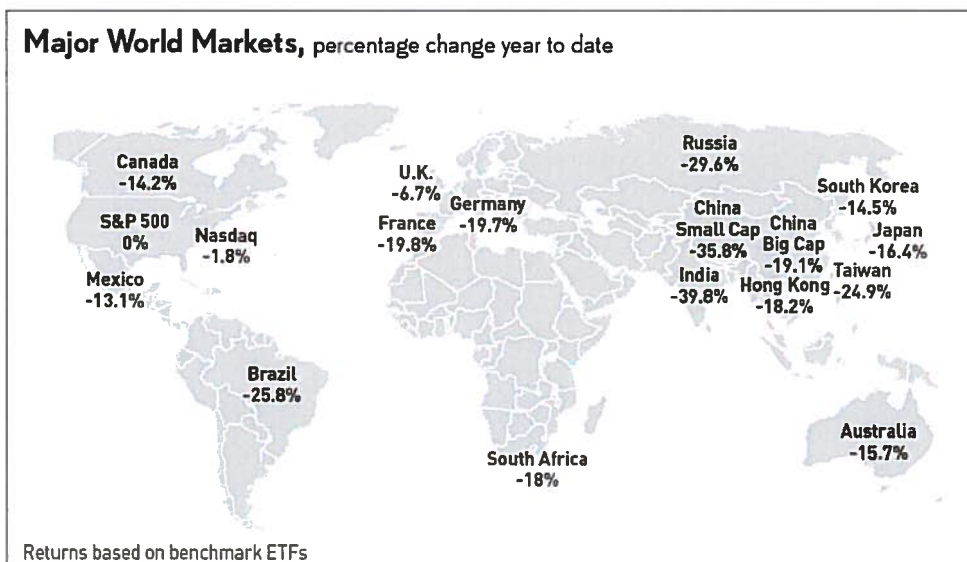
January 12, 2012

Dear Unitholders:

The net asset value of the Fund as of December 31, 2011 was \$3,708.95 per unit in Canadian dollars. This represents an 8.0% increase for the year and a 10.2% increase for the fourth quarter in Canadian dollars. In U.S. dollars, the Fund rose 5.7% for the year and 12.6% during the fourth quarter. Year to date our results compare very well with the Indexes listed in the table below and with the average U.S. Small-cap Manager who declined 3.4%.

	Dec. 31/11	Sept. 30/11	Dec. 31/10	4th Quarter	1 Year
Fund Cdn	\$3,708.95	\$3,365.36	\$3,433.13	10.2%	8.0%
Fund U.S.	\$3,646.95	\$3,239.35	\$3,451.77	12.6%	5.7%
S&P 500	1,257.60	1,131.42	1,257.64	11.2%	0.0%
Russell 2000	740.92	644.16	783.65	15.0%	-5.5%
NASDAQ	2,605.15	2,415.40	2,652.87	7.9%	-1.8%

As it was in 2010, the year 2011 was a year in three parts, only with a deeper mid year decline. Through late July the S&P500 was up 6% but then dropped quickly by 18% by early October. Fortunately by year end the markets recovered and the S&P500 finished flat for the year. The Formula Growth Fund had a similar experience being up 18% by the end of July and then declining 21% from there by the beginning of October. The Fund rallied strongly at that point to close the year up 5.7% in U.S. dollars. On the whole 2011 was a very difficult year for stocks around the world. The chart below illustrates just how tough it was. The U.S. was the one bright spot in a sea of negative returns.



The extreme volatility in the equity markets in recent years has made it difficult for investors to achieve a consistent or even a remotely smooth return. Returns on stocks have been lumpy and have come in fits and starts. Masked by the volatility is the fact that since the financial meltdown of 2008, U.S. stocks have had solid returns. The S&P500 has compounded at 12% while the smaller and more growth oriented Russell and NASDAQ indexes have compounded at 14% and 18% respectively. Formula Growth Fund has done better over the past three years compounding at 23% in U.S. dollars. It has paid investors to hunker down and stay exposed to equities instead of allowing frustration and skepticism from the macro environment to drive them away from stocks. It is our strong feeling this will continue to be the case in 2012.

It is easy to understand why there has been tremendous volatility in the financial markets given this year's Euro zone sovereign debt crisis, U.S. debt-ceiling impasse, sputtering global GDP growth, the Arab spring, the Japanese earthquake and bumbling politicians. These concerns, and others, have shaken investor confidence to the core and are resulting in economic deleveraging and political paralysis around the globe. Over time confidence will rebuild as negative headlines fade into background noise and the focus shifts to the solid results being reported by U.S. public companies. As this occurs volatility should subside and stocks should increase.

Given the flight to safety during 2011 less risky assets such as bonds were home runs last year. Government bond yields were pushed down to unprecedented levels resulting in a 19 percent total return on 10-year U.S. Treasury bonds --- 30-year Treasury bonds returned 36 percent! It is extremely unlikely that U.S. government bond yields can move any lower. It needs to be noted that in 2009 when yields were moving higher 10 and 30-year bonds lost 11 and 29 percent. The bottom line is risk free government bonds are not always risk free. It is our guess that bond returns are likely to be very mediocre in 2012 and this too should help drive investors to own stocks.

In this low yield environment we find it perplexing that stocks with growing earnings are being ignored. Defensively minded investors are forgetting that the coveted dividends they seek are paid out of corporate earnings and earnings in total are being valued inexpensively by the market. The S&P500 price/earnings multiple is just 12 times which represents an 8 percent earnings yield. These earnings are available to be paid out as dividends. The stocks in the Formula Growth Fund have the same price to earnings multiple and yet the earnings are growing faster than the market.

In summary, we are constructive on U.S. stocks as corporate earnings are in good shape and stock valuations are inexpensive. Furthermore, any reversal in the powerful bond market will mean even more funds flowing back to the equity markets.

For 2011 there is no capital gains distribution. No T3 forms will be issued to our Canadian resident Unitholders. Please do not hesitate to call the office if you need any additional clarification on taxes or any other matter.

On behalf of the officers and employees of Formula Growth Limited, manager of Formula Growth Fund, we appreciate your continued support and please accept our best wishes for a healthy, happy and prosperous 2012.

Yours truly,
Formula Growth Limited

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