

# FG Global Opportunities Fund

## First Quarter 2012 Investment Results

April 17, 2012

### Highlights of the Quarter

- Strong start to the year for the FG Global Opportunities Fund up 12% year to date
- Constructive viewpoint on China: record low valuations, slowing but robust growth, and a successful 'soft landing' expected
- Constructive viewpoint on the U.S.: continued economic recovery, earnings multiple expansion, and upside earnings surprises

Dear Investors,

We are pleased to report that the FG Global Opportunities Fund (GOF) increased 12.0% U.S., net of fees during the first quarter (Table 1). Below, we discuss the markets in review, portfolio positioning and attribution, regional U.S. and China commentaries, and our portfolio activity.

Table 1

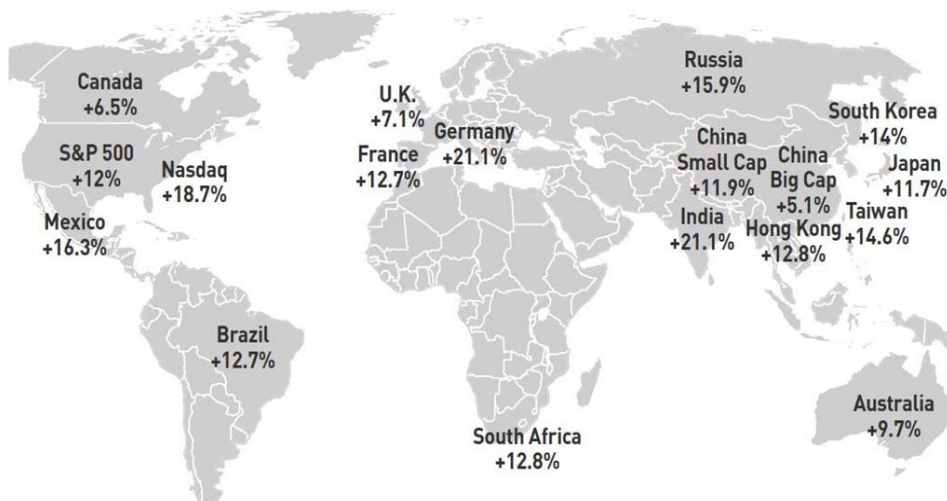
2012	GOF Post fees (US\$)	Market Indices (US\$)		
		S&P500 TR	MSCI Asia Pacific TR	MSCI China Small Cap TR
1st Quarter	12.0%	12.6%	12.0%	10.4%

### First Quarter Market Review

Around the globe, equity markets rebounded strongly in the first quarter with emerging markets posting the strongest first quarter gains seen in 20 years. We witnessed a dramatic shift in sentiment and fundamentals at the turn of the year as U.S. unemployment continued to recover, concerns abated over China's slowing growth and Europe's negative debt headlines abated confirming that the turn in global growth was intact.

### Returns Based on Benchmark ETF's

Major World Markets, percentage change year to date



Source: Investor's Business Daily (IBD)

# FG Global Opportunities Fund

## First Quarter 2012 Investment Results

There were many factors that helped fuel a strong rally in equities in the first quarter, the most significant being central banks supporting growth through sizable liquidity injections. An example of this was the European Central Bank's creation of two major LTRO facilities. Other key factors contributing to the rally in equities included interest rates falling in emerging markets, a solid outlook for earnings, and global equity valuation levels that continued to remain very attractive.

### Portfolio Positioning and Attribution

The portfolio ended the quarter 104% gross long, 9% gross short for a net exposure of 95%. We remain aggressively positioned as we continue to find many reasonably valued stocks. In an environment where we expect the U.S. economy to continue its recovery and China to manage their slowdown in an orderly fashion, we feel equities will attract increasing investor interest. Our net exposure by sector is shown in Table 2.

Table 2

Sector Weightings March 31 2012	
Sector	Net Exposure
Consumer	35.0%
Energy	17.1%
Financial	16.7%
Industrial	12.9%
Technology	10.0%
Materials	3.2%
Healthcare	0.4%
Telecommunications	0.0%
Utilities	-0.5%
<b>Subtotal</b>	<b>94.8%</b>
Cash	5.2%
<b>Total</b>	<b>100.0%</b>

Portfolio longs in all regions contributed positively to this quarter's performance. Our top five winners contributed 365bps while our top five losers detracted 355bps (Table 3). We ended the quarter with approximately 55% of our gross exposure in international markets.

Table 3

Top Winners/Losers for Q1 2012	
Winners	Losers
T.G.C. Industries	Ports Design
Citigroup	Northern Oil & Gas
Carmike	Bawang International
Spirit Airlines	Fook Woo
Ezion Holdings	Unitek Global

### U.S. Commentary

A recent analysis by the Wall Street Journal revealed that U.S. companies have emerged from the deepest recession since World War II more productive, more profitable, flush with cash and less burdened with debt. Deep cost cutting during the downturn and caution during the recovery have put U.S. corporations on firmer financial footing, helping them to outperform the rest of the economy and gather a greater share of the nation's income. The strong corporate recovery is reflected in the stock market, with the S&P500 more than doubling since the lows hit in March of 2009. Essentially, U.S. companies have become leaner, meaner, and hungrier.

China Commentary

There are many concerns about China's GDP growth slowing, especially as we start the second quarter. China continues to face the challenge of shifting the sources of growth from investment and exports to consumer spending. It is our belief that the central government has ample tools to maintain an orderly slowdown in its overall growth rate or manage to a 'soft landing' for the economy. There is no doubt that it is Beijing's stated intention to rebalance the economy to a more sustainable footing even if this is at the expense of high growth.

The gradual dampening of China's GDP growth has been achieved for the most part by restraining the supply of credit. Interestingly, new bank loans in March grew much stronger than expected, showing signs of loosening in China's tight monetary policy. In another recent example of easing, China announced a cut in duties on imported luxury items, such as high-end watches, to incentivize more domestic consumption. As well, the government recently more than doubled the quota of Qualified Foreign Institutional Investors to US\$80bn, allowing foreign investors to purchase more Chinese equities to support the local stock market.

By experiencing rapid growth, there is no question that China is going through its fair share of growing pains. One of these is the need for better regulatory supervision of corporate governance and the need to increase investor confidence in the Chinese and Hong Kong capital markets. Corporate governance has always been central to our investment process and we take it very seriously. We are constantly in contact with all our portfolio companies and thoroughly analyse their corporate conduct. As well, it is imperative to our process to cross reference potential and existing investments with our key network of peers, industry experts in the space, brokers, analysts, and company competitors - an approach that Formula Growth has been very successful with for over 50 years. Furthermore, we continue to work very well with our on-the-ground research team in Hong Kong through James Soutar's PhoenixInvest. They continue to do exceptional work out of the Hong Kong office.

Our Portfolio

We have taken the recent March market retracement in China as another opportunity to add exposure to the region. We are pleased to see a strong start to the year and look forward to markets that we expect will remain constructive for 2012. Markets are simply too cheap; the valuation of the Shanghai market is currently trading at a forty year low price to earnings ratio of 8x, while earnings are expected to post 20% growth in 2012. Our average portfolio P/E multiple is even lower than this.

On behalf of the entire team here at Formula Growth, we would like to thank you for the trust and confidence you have placed with us.

Yours truly,  
Formula Growth