July 14, 2022

***Quarterly Report - Kalo Capital Management, LP***

| Net Performance | Apr'22 | May'22 | Jun'22 | Q2'22 | YTD 2022 |
|---|---|---|---|---|---|
| Kalo Capital Management, LP | (10.5%) | (0.1%) | (3.9%) | (14.1%) | (20.6%) |
| Russell 2000 (IWM) | (9.9%) | 0.2% | (8.4%) | (17.3%) | (23.5%) |
| S&P 500 (SPY) | (8.8%) | 0.2% | (8.2%) | (16.1%) | (20.0%) |
| Small Cap Momentum ETF (DWAS) | (6.5%) | 1.5% | (15.3%) | (19.6%) | (24.4%) |
| Gross Alpha Performance | (6.5%) | 0.4% | (0.2%) | (5.9%) | (10.5%) |
| Gross Beta Performance | (4.3%) | (0.4%) | (3.6%) | (8.1%) | (10.3%) |

## Performance

In the second quarter, Kalo lost 14.1% net versus a 17.3% loss for the Russell 2000. The stock markets continue to sell off and briefly rally as all eyes remain focused on the uncertain inflation outlook and Fed response. While they continue to be sold, many overpriced tech names have recently shown bouts of outperformance relative to cyclicals as market worries shift from rate increases to economic growth fears.

Our longs negatively contributed 920 bps of performance against our shorts which positively contributed 540 bps. Highly shorted stocks, which we do not have much exposure to, continue to cycle through periods of relative outperformance due to hedge fund de-grossing as markets remain volatile and illiquid.

## Outlook

As we enter Q3, we continue to worry about the economy and believe the economic outlook will continue to get worse. Inflation has reached new heights, and the consumer buying ability is clearly weakening (based on comments from companies in June). The labor market is also showing early signs of weakening. We believe a recession is likely. It is also clear that the Fed will continue to raise interest rates in an effort to limit inflation. Once again, we find ourselves with the view that the broad stock market is due for further losses going forward.

In contrast with the broader stock market which still sports high valuations, many microcap stocks are significantly undervalued, with excellent risk/reward opportunities.

Looking back at the past two years, I find early 2020 as a turning point in the stock market. Clearly Covid came on the scene just a couple of months into 2020. After the initial fall in stocks in reaction to covid, stocks then started an epic rally with excessive chasing and reckless risk seeking, driven by dramatic government/Fed stimulus and exceptionally low interest rates. Markets experienced rampant speculation across meme-stocks, NFTs, cryptocurrencies, and the broader stock market. Things seemed to peak in Spring 2021, and since then, one by one, areas of the market started giving back all their gains since the start of 2020. Microcap stocks (where Kalo focuses), have generally already given back all and more of these gains – with much of the fall occurring in 2021 and continuing in 2022. The larger, but still small market cap companies that make up the Russell 2000 have returned to roughly the same levels as early 2020, with the bulk of this fall occurring in 2022. In Q2 2022, the broader market, as reflected in the S&P 500, finally has also started to fall significantly. While down, the S&P 500 is still far above those early 2020 levels, despite a much worse economic outlook (a weakening economy, rising interest rates, the coming reductions in government bond purchasing, high gas prices, rampant inflation, etc.). In our view, the broader market has further to fall (it would be another ~15% fall from here in the S&P 500 to be back to start of 2020 levels).

Meanwhile, the smaller microcap companies have careened far below the early 2020 levels, amidst dried up liquidity and punishing stock moves. Given the environment, we find investors pay little notice, let alone do research and analysis, on these microcap names. Consequently, we see many stocks sell-off to ridiculously low levels. We are seeing a growing number of companies take advantage of this with stock buybacks, or management insider buying. We continue to look to take advantage of these opportunities by adding to certain positions where we have the most conviction.

We continue to look to improve the quality of the long portfolio by shifting capital and adjusting position sizing into higher quality names as we continue to find new ideas. We are opportunistically adding and creating new stock positions in fundamentally sound stocks, on stock weakness. We also re-established positions in a couple of stocks (JYNT, KRNT) that we exited at higher prices years ago, as they have now become over-sold and excellent values, in our opinion. These make for excellent examples on how stocks go through a loved phase where the valuations become outrageously high, but have now fallen very much out-of-favor with an overly pessimistic investor base and appear to be excellent risk/reward opportunities.

Despite our negative view on the broader market, we are excited by excellent value opportunities on the long side, the likes of which remind us of 2009/2010 after the 2008 financial crisis. We continue to focus on companies with the staying power to survive a weak economy and increasingly penetrate their markets. While it is difficult to predict when these stocks will move significantly higher, at some point when investors re-engage with microcap names, we expect these stocks to materially increase. Our conviction comes from recognizing the deep discounts these stocks trade at vs. reasonable conservative cash flow power driven multiples. As these stocks get focused on, we expect significant alpha and significant positive absolute performance for the portfolio.

In tune with our views, our exposure is currently 98% long / 60% short, for 38% net exposure.

**Investment Spotlight: AudioEye (AEYE)**

Audioeye helps companies and content creators make their websites compliant with disability regulations such as the Americans with Disabilities Act (ADA). The ADA states that websites must make themselves accessible to people with disabilities (hearing or visual impairments). Mounting legal pressure, in the form of ADA lawsuits, is driving greater awareness and adoption of Audioeye's accessibility solutions. By using their simple solution, companies can help mitigate the risk of demand letters and lawsuits. The system is easy to use – a company simply installs patented javascript code on their website, and then Audioeye monitors it for errors and compliance. Currently, only 2-3% of websites are in compliance, so there is a large remaining market for Audioeye to penetrate. With growing awareness, we expect this penetration to dramatically increase in the years to come. The company continues to grow Monthly Recurring Revenue (MRR) at a 15-20% annual pace with potential to accelerate.

Recently, the company announced a small stock buyback, and the CEO also recently bought shares on the open market. With little cash burn and continued MRR growth (which we believe is not macro sensitive), we expect the company to get close to break-even in the second half of this year, even as they continue to invest into the business. The company also has the ability to be cash flow positive at any point, if necessary, by reducing its growth spending, driven by its high margin recurring revenue stream. Importantly, management has significant ownership in the stock and aligned incentives, giving us comfort they won't do a dilutive equity deal at current low stock prices.

Similar to many other microcap companies, AEYE traded down to ridiculously low levels. and we opportunistically added to our position. More recently, we have seen the stock bounce back some – buoyed by the announcement of the company stock buyback plan. We believe the stock has significant upside driven by conservative multiples on EBITDA and cash flows that could be achieved if management decided to slow growth, along with our understanding of multiples that the M&A market continues to acquire accessibility companies such as AEYE at, even in the current depressed market. We further expect that the Department of Justice could initiates mandates for website accessibility which would dramatically accelerate Audioeye's growth and enhance investors' interest in the story.

**Conclusion**

The economy is clearly worsening and investors are generally bearish. While we believe the broader market may have more pain to come, we feel our long positions have extremely powerful upside at their extremely depressed valuation. We appreciate your confidence in us. Wishing you, your family, and your business health and happiness in 2022.

Sincerely,

Steven D. Friedman, CFA
Founder and Portfolio Manager

Please note that Kalo's expectations and strategy can change regularly and the views expressed here may change.

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KALO CAPITAL MANAGEMENT

**June 2022**

Fund: Kalo Capital Management, LP
Portfolio Manager: Steven D. Friedman, CFA
Inception: March 2011
AUM: $20.0M

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## Firm Summary

Kalo Capital is a fundamental long/short equity fund, targeting alpha-driven returns with controlled downside risk. Kalo was originally founded in 2011 to manage family assets and has since opened to outside investors. The strategy is designed for strong alpha driven returns with controlled downside risk. The equity long/short strategy is focused on small/micro market cap companies overlooked by the broader market, with fundamentally driven growth opportunities. Combined with valuation and catalyst timing criteria, this focus generates positions we believe will rise even in poor markets or a weak macro economy. Our process is a key differentiator - it enables us to consistently find these new ideas, which are not obvious to find nor easily replicable, and leverages off years of past manual analysis. We aim for positive absolute returns in any year as well as to outperform and have lower volatility than the Russell 2000 and S&P 500 over multiple years.

## Historical Performance (Net)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year | IWM | Alpha |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2022 | (3.7%) | 1.9% | (5.8%) | (10.5%) | (0.1%) | (3.9%) | | | | | | | (20.6%) | (23.5%) | (10.5%) |
| 2021 | 10.9% | 13.3% | (4.5%) | (4.9%) | (3.0%) | (0.8%) | (7.2%) | (6.6%) | (4.1%) | 7.0% | (5.8%) | (2.7%) | (10.4%) | 14.5% | (14.1%) |
| 2020 | 4.5% | 0.6% | (16.1%) | 10.8% | 4.2% | 3.4% | 0.7% | 7.6% | (2.1%) | 2.4% | 6.5% | 13.4% | 38.2% | 20.0% | 48.2% |
| 2019 | 8.9% | 4.2% | 0.4% | 1.3% | 1.2% | (0.6%) | 1.6% | 1.1% | (2.7%) | 0.8% | (0.1%) | (0.9%) | 15.8% | 25.4% | 16.5% |
| 2018 | (1.2%) | 3.0% | 2.2% | 1.6% | 10.8% | 3.5% | (1.3%) | 4.9% | (3.3%) | (7.2%) | (0.0%) | (6.9%) | 4.8% | (11.1%) | 11.8% |
| 2017 | 4.1% | (2.7%) | 1.7% | 1.7% | (2.3%) | 6.1% | (1.0%) | (0.6%) | 7.8% | 0.1% | 5.2% | (0.4%) | 20.9% | 14.6% | 21.3% |
| 2016 | (5.1%) | 2.4% | 0.5% | 1.7% | (2.6%) | 0.4% | 4.3% | 1.5% | 3.5% | (3.7%) | (0.9%) | 0.8% | 2.5% | 21.6% | 0.4% |
| 2015 | (5.3%) | 4.9% | 1.1% | 0.8% | 1.4% | (1.8%) | (4.3%) | (2.2%) | (2.5%) | 8.5% | 4.6% | 0.8% | 5.3% | (4.5%) | 11.9% |
| 2014 | 2.0% | 5.0% | 1.7% | (1.4%) | 1.2% | 2.3% | (2.0%) | 0.1% | (1.6%) | 0.5% | (2.6%) | 2.2% | 7.7% | 5.0% | 11.3% |
| 2013 | 2.2% | 2.5% | 1.2% | 0.9% | 3.4% | 2.4% | 3.2% | 0.8% | 1.6% | 1.4% | 1.1% | 2.7% | 26.0% | 38.7% | 14.8% |
| 2012 | 5.1% | 2.2% | 0.7% | (2.6%) | (2.9%) | 3.6% | (2.0%) | 3.5% | (0.3%) | 0.1% | 0.3% | 0.3% | 7.7% | 16.7% | 2.6% |
| 2011 | | | 0.4% | 0.8% | (2.2%) | (0.2%) | (1.7%) | (2.7%) | (5.1%) | 2.1% | (2.2%) | (0.9%) | (11.3%) | (9.1%) | (4.6%) |

| Attribution (Gross) | Longs | Shorts | Alpha | Beta |
|---|---|---|---|---|
| Month-to-Date | (9.2%) | 5.4% | (0.1%) | (3.6%) |
| Year-to-Date | (36.4%) | 22.6% | (10.5%) | (10.3%) |

| Exposure (Month End) | | | |
|---|---|---|---|
| Long | Short | Gross | Net |
| 97% | (58%) | 155% | 39% |

| Concentration | |
|---|---|
| Top 5 Longs | 30% |
| Top 10 Longs | 49% |

## Benchmark Comparison (Net)

through June 2022

| | Kalo Capital | Russell 2000 (IWM) | S&P 500 (SPY) |
|---|---|---|---|
| Month-to-Date | (3.9%) | (8.4%) | (8.2%) |
| Quarter-to-Date | (14.1%) | (17.3%) | (16.1%) |
| Year-to-Date | (20.6%) | (23.5%) | (20.0%) |
| Trailing 24 Months | (6.7%) | 20.8% | 25.9% |
| Inception-to-Date | 101.9% | 141.0% | 253.1% |
| **Since Inception (March 2011-Present)** | | | |
| Inception-to-Date CAGR | 6.4% | 8.1% | 11.8% |
| 5 Year CAGR | 5.8% | 5.1% | 11.2% |
| 3 Year CAGR | (0.7%) | 4.1% | 10.6% |
| Annual Downside Volatility | 9.2% | 12.7% | 8.8% |
| Max Drawdown | (43.4%) | (32.3%) | (20.0%) |
| Sharpe Ratio | 0.49 | 0.50 | 0.87 |
| 5 Year Sharpe Ratio | 0.38 | 0.33 | 0.71 |
| Sortino Ratio | 0.78 | 0.75 | 1.37 |
| 5 Year Sortino Ratio | 0.60 | 0.47 | 1.07 |

| Alpha Performance Driven Stats | |
|---|---|
| Annualized Alpha (Gross) | 9.0% |
| 5 Year Annual. Alpha (Gross) | 11.4% |
| Correlation to Russell | 68% |
| Correlation to S&P | 52% |

| Fund Terms | |
|---|---|
| Fees: | 1.5% / 20% |
| Min Investment: | $100k |
| High Water Mark: | Yes |
| Liquidity: | Monthly |
| Lockup: | None |

| Service Providers | |
|---|---|
| Prime Broker: | Jefferies |
| Auditor: | Berkower LLC |
| Legal: | Crow & Cushing |
| Admin: | Theorem Fund Services |
| CFO Support: | Constellation |

Note: Most recent month performance may be preliminary. Past performance is not indicative of future results. Performance calculations are net of all fees, 1.5% management fee and 20% performance fee. Index comparisons for IWM (Russell 2000 ETF) and SPY (S&P 500 ETF) adjust for dividend reinvestments. Alpha performance calculated vs IWM (Russell 2000) and is gross (before fees). Exposure levels adjust for inverse ETFs and net boxed positions. Concentration shows exposure as percentage of assets. Performance from longs versus shorts may not adjust for boxed positions.

## Disclaimer