January 17, 2018

Quarterly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

For the quarter ended December 31, 2017, the Kalo Capital Management, LP fund gained 4.9% net, versus a gain of 3.0% for the Russell 2000. For the year, Kalo finished up 20.9% net versus a 13.1% gain for the Russell 2000.

	Dec 2017	QTD	YTD
Kalo Capital Mangement, LP	-0.4%	4.9%	20.9%
Russell 2000	-0.6%	3.0%	13.1%
S&P 500	1.0%	6.1%	19.4%

2017 Full Year Review

Over the course of the year, we generated 41% of gross attribution from longs, offset by 9% losses from shorts and 4.4% losses from market hedges. Some of our strongest performers for the year included OSTK, USAT, and NVDQ. Despite the significant increases some individual stocks experienced, our performance came from many names and was well diversified. Our best performing stock accounted for 11% of the gross individual stock gains for the year. We are also pleased to report that the bulk of our gains were driven from strong stock selection, as can be seen in the 22% gross alpha contribution and 5% gross beta contribution for the year. However, we were disappointed in the performance of our shorts, which were particularly hurt by some over-loved names extending gains to extreme valuations.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	4,157	94%	44.3%
Shorts/Hedges	(1,338)	-45%	29.8%
Russell 2000			13.6%
Alpha (Gross performance from stock selection)			21.9%
Beta (Gross performance from exposure)			5.3%

Markets

The recent news on the economic and political front is the passing of the tax reform package. We have had the view that the economy is generally stable and showing continued slow growth. With the new tax reform passing, we have renewed conviction in this strength and are optimistic that growth will continue and possibly accelerate. We believe the lower personal tax rates will lead to more consumer spending and increased consumer confidence. Further, we expect the lower corporate rates and continually improving jobless trends will help push up payrolls, further strengthening the economy.

The North Korean situation remains unresolved, but barring a cyber or nuclear attack on US soil we feel that the back and forth exchanges between President Trump and Kim Jong Un are unlikely to materially impact the stock market. There are some other topics that occasionally stir attention in the news (such as Iran, Israel/Palestinian relationship, illegal immigration, or a government shutdown), but we don't expect any of these to materially impact the market.

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Shift in the Market

Despite the geopolitical and domestic concerns discussed in the news, the stock market investor base is increasingly complacent, as demonstrated in the extreme low volatility (VIX) measures in the market, which recently hit an all-time low. With the lessening of investor concerns, we are starting to see frequent examples of reckless buying without fear of downside risk. Driven by a fear of "missing out", we see stretched valuations in many smaller market cap names, as well as dramatic stock run-ups in micro cap names, on weak or hype-related news. These signs make us hesitate, as they can often signal a prelude to a market correction. We see evidence of investors getting increasingly aggressive and abandoning risk controls in a variety of recent anecdotal data points.

- Investors were "loading the boat on risk," with "long/short net and gross leverage as high as we have ever seen it." (according to Morgan Stanley).
- "Retail investors ended 2017 with exposure at all-time highs." (according to TD Ameritrade).
- Cash balances for Charles Schwab clients reached their lowest level on record in the third quarter. Retail investors "can't stay away" from stocks. (according to a Morgan Stanley report).

Where does this leave Kalo? As always, our first concern is protection of capital. Given the indicators we see in the market, we are seeking more short ideas in the smaller market cap names that have been pushed up. We still have many long positions where we feel there is significant upside to come (the stretched valuations we've been noticing are not across the board, but in select stocks). However, given our concern of the current environment, we are keeping our gross long exposure in check at typical levels (down from above average levels in 2017). Over the last few quarters we discussed our growing belief that the stock market environment was becoming more favorable for smaller market cap companies, and in turn increased our investment levels. In contrast, we now are considering scaling this investment exposure back. Our current exposure is roughly 85% long / 35% short, 50% net.

Areas/Stocks of Interest

Below we provide a brief review of two specific companies in the portfolio which we are excited about.

Energy Recovery (ERII): ERII manufactures filtering equipment used in desalination plants globally, with the dominant technology and market share. Management has been focused on expanding the application of this technology into other industries. In late 2015, the company struck a deal with Schlumberger, one of the largest global players in the oil & gas industry, to utilize the ERII technology in the hydraulic fracturing "fracking" industry. After some hiccups, ERII is now on the verge of completing a key milestone in early 2018, setting the path for commercialization later this year. Management has released preliminary information in recent weeks that the newest iteration of their Vorteq product for fracking wells is meeting the required milestone targets. However, complete testing needed to be delayed as the company awaits new parts to adequately run the synthesized milestone tests, but we believe this preliminary data greatly removes the near term risk and that upcoming official milestone completion will act as a catalyst for the stock.

Beyond the Vorteq for the fracking industry, we expect additional updates on some of ERII's other products for gas processing and mud pumping. These add additional layers to the growth story of this stock. When layering in the earnings power from future products for these additional industries over the coming years, we believe the stock has significant upside to levels above $30 (vs. current $9 stock price). We have been following the company since 2009.

Gridsum (GSUM): GSUM is based in China and provides cloud based big-data and artificial intelligence solutions for companies and government entities. GSUM has relationships with leading companies including Tencent, Accenture Coca-Cola, Amazon, Bank of China, Dell, and Nike. The core technology (Gridsum Prophet) helps enterprises enhance their marketing by analyzing user behavior through machine learning, natural language processing, image recognition, predictive modeling and knowledge graphs. The company plans to expand its product line further contributing to its growth, as demonstrated in its recent rollout of a CRM (customer relationship management) vertical.

Gridsum IPO'd in 2016, but has stayed below the radar screen of most investors despite strong revenue growth. Management owns a significant portion of the company (over 40%) and has not sold stock. Revenues are growing at 40-50% per year. This combination of solid fundamentals, significant earnings power, low penetration, as well as a stock that is undervalued and off the radar screen of most investors, fits a core type of investment we look for.

Fast growing software companies with significant sales and marketing expenses that mask earnings potential are difficult to value. In these situations, we generate price targets by focusing on the future potential cash flow power of the business. Understanding operating expense structure, and evaluating the Enterprise value / taxed gross profit provides some guidance to our price target goals. Based on our analysis, we believe the stock should be valued in the mid-high teens with potential to be much higher (from roughly $8.75 when we entered the stock and $11.50 today).

Q4 Performance

In Q4, the Fund gained roughly 898 gross bps from long positions and lost 222 gross bps from short exposed positions (-179 bps from shorts and -43 bps from market hedges). As can be seen on the chart below, the Fund's longs outperformed the Russell 2000, gaining 10.3% on average vs. the Russell's 3.5% gain. The shorts rose more than the index as well, rising 5.6% on average hurting performance. This combined for approximately 4.6% of gross alpha in the quarter.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	898	87%	10.3%
Shorts/Hedges	(222)	-39%	5.6%
Russell 2000			3.5%

Alpha (Gross performance from stock selection)	4.6%
Beta (Gross performance from exposure)	1.7%

Q4 Details - Gains

Our gains in the quarter were led by Overstock (OSTK), USA Technologies (USAT), eGain (EGAN), and Axon (AAXN).

Overstock (OSTK): We profiled OSTK in our Q2 2017 letter as a misunderstood company with a cash flow positive e-commerce business coupled with investments in the burgeoning blockchain technology space. We discussed it again in Q3 2017 as market awareness of blockchain and crypto-currencies started to quickly gain mainstream media exposure. During Q4 2017 we locked in much of our gains as OSTK ran to new highs. However, we continued to maintain a smaller core position as well as execute shorter term trades. As of December 31, we have exited most of our position, and maintain a roughly 1% core underlying position. Now, with so much investor attention and expectations ramped so high, the downside risk in the stock has become significant. However, we do still believe there is more upside potential driven by OSTK's blockchain investments.

USA Technologies (USAT): USAT is a company we have been following and have been shareholders in for many years. They equip vending machines with hardware and software to allow consumers to pay with credit cards and electronic payment methods like ApplePay. Not only is this more convenient for consumers, but it materially increases sales from vending machines. We like that USAT is a leader in this field, the penetration rate of vending machines having already been upgraded is still low, and the company has a recurring revenue business model, and significant operating leverage. In November, USAT announced they were acquiring another large player in the space (Cantaloupe Systems) that provides services to vending machines.

When USAT first announced the acquisition of Cantaloupe Systems in November 2017, we added a short term trade in USAT to go along with our existing investment, as we recognized the importance of the transaction. We have since exited that short term trade after seeing the stock advance roughly 15-20% further and then stabilize, and now maintain only our investment position. This is a good example how we utilize our nimbleness and knowledge of situation to generate additional alpha through short term trades.

We believe there is still significant upside in the stock and continue to hold a large investment position. Despite the strong performance in 2017, the stock is still unknown by many investors and far from a full valuation, in our opinion. The core business remains solid and incremental operating leverage is starting to show through. Further, we believe USAT can boost their revenues from a customer by roughly 40% when successfully cross selling the Cantaloupe product line. The penetration rate for the vending machine industry upgrading to credit card/digital payment ability is still in the single digits, signaling the opportunity for significantly more growth in future years.

eGain Corp (EGAN): We have followed EGAN for many years. EGAN has a product suite that provides customer engagement capabilities for companies to interact with consumers across all channels (mobile, social, email, chat, etc.). The past few years have been rocky for the business as they were transitioned from legacy on-premise licenses toward a recurring cloud model, and suffered some a loss of some customers. This led to a significant drop in revenues,

and investor interest. We have held a small position in EGAN since late 2016 as they worked through their transition. We were comfortable with this due to management's aggressive cost cutting and strong efforts to control cash burn and avoid equity dilution. The CEO owns roughly 1/3 of the business, which ensured his interest in avoiding such a dilution as well. In mid 2017, we identified that they were on the verge of again resuming revenue growth - with a recurring revenue stream, lean cost structure, ability for significant operating leverage, and an extremely low valuation. Consequently, we increased our position to a significantly larger sized position. In Q4 2017, awareness has started to build and the stock has started to move up.

This is a great example of a stock that has fallen off most radar screens, but has a fundamentally sound business (although it is a smaller market cap than typical for us). Our earlier small investment led to losses in 2016 as the stock continued to weaken. However, we rightly recognized that this was creating an even better risk/reward opportunity. We added to our position at stock prices in the $1.80-$2.20 range (but still kept our overall position generally small). Then when we started to gain conviction that the company was returning to a growth trajectory and positive cash flow business, we significantly increased our position to a meaningful size adding at stock prices from $3-3.30. The stock finished the year above $5, where it currently remains.

We remain excited about the prospects for 2018 as the incremental operating leverage fuels earnings growth, and new product capabilities, powered by artificial intelligence, drive sales growth.

Axon Enterprises (AAXN): As initially discussed last quarter, we are still very excited by Axon Enterprises. We got an updated look at their financial model and expectations during their investor day in mid-November. This information gave us strong conviction in our holding. As a refresher, Axon Enterprises, formerly known as Taser, is a company that sells products to the law enforcement industry. They are the clear leader for non-lethal weapons (Tasers), as well as body and police car cameras, that are rapidly being employed by agencies throughout the US and internationally. As domestic tensions escalate and public concerns over police brutality increase, we believe it is only a matter of time before all agencies equip officers with non-lethal Tasers and body and car cameras. Axon has recently launched a marketing program offering a free one year trial to police agencies for body cameras (in the US and Canada). We believe this will drive future growth and solidify their dominant market share position. We expect this sales technique, which has no upfront capital requirement from police agencies, will accelerate adoption. We believe the service will quickly become a core resource, and thus difficult for agencies to cancel once adopted. The company is very excited about early feedback from this trial initiative. We expect it will succeed in accelerating growth and solidify Axon's market share leadership.

We were surprised the stock wasn't stronger following its Q3 earnings call. We were particularly encouraged by the new sales program, artificial intelligence management system, and focus on boosting margins with cost controls. Consequently, we increased our position in advance of the company's analyst day in November. Following the analyst day, the stock has been building strength, rising from roughly $22 to roughly $26, where it remains today. We remain surprised by the level of investor pessimism about the stock, as can be seen in its high short interest rate of over 30%. We feel there is significant upside potential based on the future earnings power we expect for the company.

Q4 Details - Losses

Our losses were led by a couple of our more speculative long positions, Aqua Metals (AQMS) and Rubicon Project (RUBI). Both of these stocks had terrible performance in 2017, and suffered additional falls in Q4. We still have positions in each stock as we believe they still have significant upside potential and additional near term downside risk is limited. We are closely following their stories with an eye towards new data that will increase our convictions, at which point we may increase our position size.

Aqua Metals (AQMS): We discussed AQMS losses last quarter as the development of their refining process suffered setbacks. In an effort to shore up its capital, the company did a dilutive equity offering in Q4, leading to another leg down in its stock price. We were surprised at the timing of the offering as we felt management would show some positive signs of development prior to such a dilutive deal. But, due to some additional setbacks, management felt the need to shore up its balance sheet. We are disappointed in the setbacks of the company, however we still believe there is significant upside if the company is successful ramping up their process. We are comforted by their relationship with Johnson Controls (largest battery manufacturer), which ultimately led us to invest in such an early stage company that is cash flow negative, which is rare for us. While risk still exists, additional equity dilution is unlikely in the near term, limiting additional downside risk for the near term. Thus we continue to hold a position, but not too large as it remains to be seen if they will be successful ramping up their plant and demonstrating the ability to generate positive cash flows.

Aqua Metals has developed a proprietary process (AquaRefining) to recycle used lead-acid batteries at a lower cost and with fewer emissions than the traditional method of smelting used by the industry. The current lead-acid battery smelting industry is a $20 billion per year market. Typically we avoid stocks like this, where a new unproven process attempts to generate traction in an existing industry, but in this case, we became involved earlier, before the first operating plant was fully operational and proven to work, because Aqua Metals received a significant equity investment and contract in early 2017 from Johnson Controls (the largest battery manufacturer). This relationship with Johnson Controls, an earlier investment from Interstate Battery Company (largest battery distributor), and evidence that the AquaRefining process had been demonstrated at a smaller scale, gave us the conviction to invest at this early stage. Unfortunately, the ramp-up learning period for their first plant has taken longer than originally intended and has led much of the investment community to lose faith in the company. These missteps have also given us pause. However, we still believe that Johnson Controls' involvement is significant and a positive indicator of the significance of the AquaRefining process, and are optimistic that the company will overcome their plant ramp-up challenges, and develop a strong business.

Rubicon Project (RUBI): RUBI acts as an automated exchange in the online advertising industry that matches advertisements to consumers across a variety of channels. They suffered significantly through 2016 as the commission rate they earned from advertising buyers on their platform started to erode. Recently, management took the extreme step of eliminating the commission for the advertising buyer all together, and now only charges advertising sellers. This buyer commission rate has dropped from roughly 12% to 0% (they continue to charge sellers

around 12%). We, along with many other investors, were surprised the industry landscape pricing changed this dramatically. This led to the already weak stock taking another leg down in Q4'17. We believe this stock fall was made worse by additional pressure from investor tax-loss selling. However, looking forward, RUBI now has a new server based solution, a re-strategized business model, and a significant cash balance that provides them time to grow out of their current cash burn. With this time to grow (cash will last well more than one year with current burn rate) and an extremely low valuation (trades significantly under cash), we feel the risk/reward opportunity in the stock is very strong, and downside risk small for the near term. Consequently, we have increased our exposure to the stock at these new dramatically low prices.

Wrap Up

2017 proved to be an exciting year that saw several successful stock picks generate meaningful gains. We remain encouraged by the market environment where individual stocks' fundamental performance is translating into stock price moves. We believe we have many positions in the portfolio with excellent risk/reward opportunities and upcoming catalysts. We anticipate another strong performance year for 2018.

Our fund continues to remain open to new investors and we encourage those potentially interested to reach out to us. We will be attending the Context Summit marketing conference in Miami later this month.

We thank you once again for your belief in our process and performance. Please feel free to call to discuss anything.

Sincerely,

Steven D. Friedman, CFA
Founder and Chief Investment Officer

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

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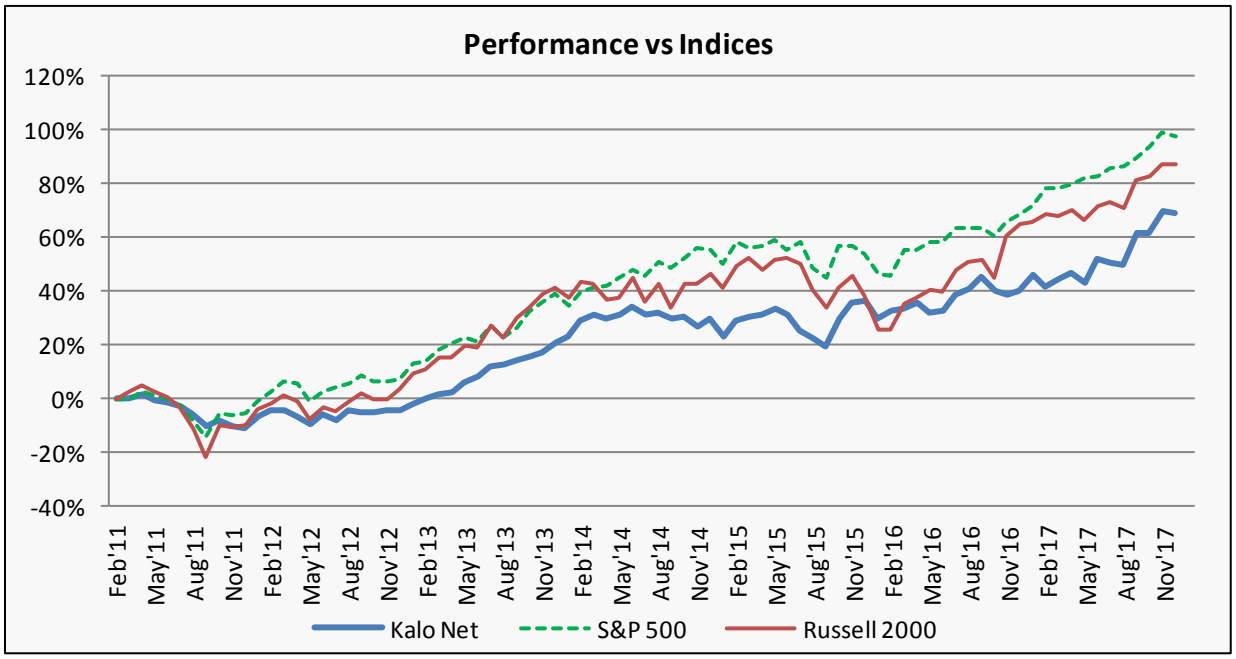
Historical Kalo Net Performance - Emerging Growth with Reduced Volatility *

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Incep.
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%**	**69.4%**
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%**	**40.1%**
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%**	**36.7%**
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%**	**29.8%**
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%**	**20.5%**
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%**	**-4.4%**
2011			0.4%	0.8%	-2.2%	-0.2%	-1.7%	-2.7%	-5.1%	2.1%	-2.2%	-0.9%	**-11.3%**	**-11.3%**



NOTE: The above returns are net of fees. Past performance is not a guarantee of future returns. Annual performance is through December 31 of each year. Returns since inception represent the return since the Fund inception March 1, 2011.

Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM ($M)	
LP Fund (EGRV)	$8.8
Separately Managed Accounts (EGRV)	$7.0
Total AUM EGRV Strategy	$15.8
Additional Trading Strategy Only Assets	$2.6
Total Combined AUM	$18.4

Note: Kalo Capital Management, LLC also manages separately managed accounts for clients using alternative strategies which sometimes invest in the same positions as those held by EGRV strategy (Emerging Growth with Reduced Volatility) used by the Kalo Capital Management, LP fund. The Fund utilizes several methods to ensure all accounts are treated equally.

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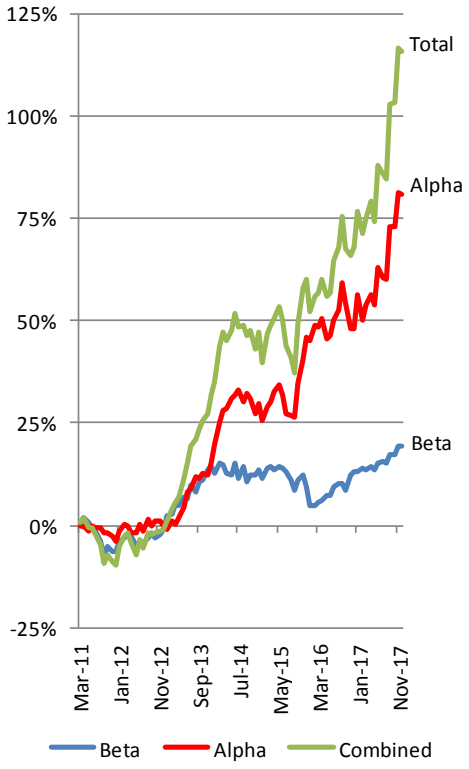
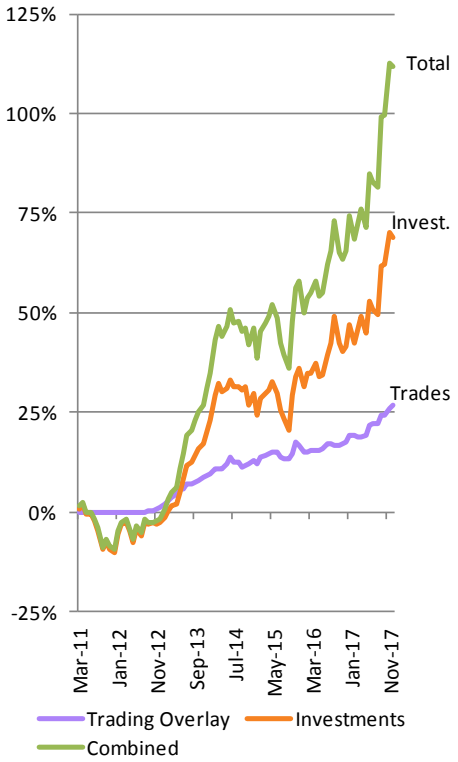
Historical Cumulative Gross Performance Breakdown

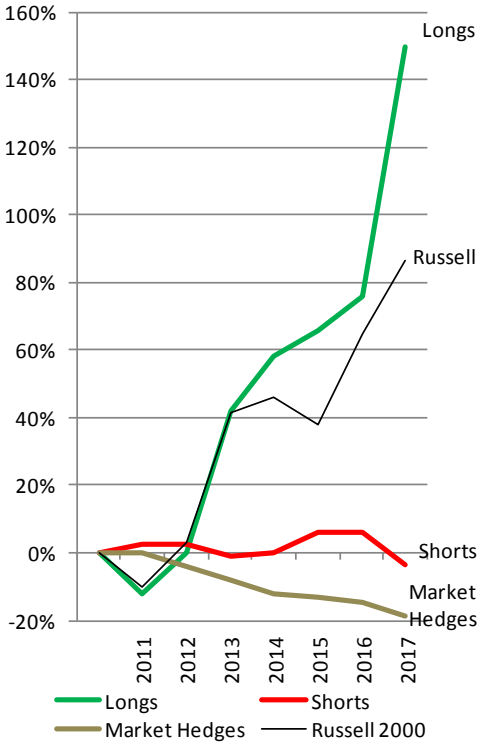
Alpha Drives Performance 9.0% Annualized Gross Alpha



Performance from Investments and Trading Overlay



Performance from Longs and Shorts



NOTE: The above are gross returns before management fees. Past performance is not a guarantee of future returns. Returns since inception represent the return since the Fund inception March 1, 2011.

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OVERVIEW OF KALO CAPITAL MANAGEMENT

Strategy

Kalo manages a hedged long/short equity portfolio focused on fundamental growth at value-like prices. Kalo has consistently generated material alpha and controlled downside risk. We utilize a variety of proprietary systematic approaches to generate new ideas and independently analyze opportunities. We devote 60% of our capital to longer term investments and 40% to short term trade opportunities. For the longer term investments we focus on business fundamentals, upcoming catalysts, and valuation based risk/reward. Shorter term trades are quickly executed in reaction to events where we see a high probability for returns over the coming one to twelve weeks. Being small and nimble enhances our ability to take advantage of these opportunities.

Our idea generation process revolves around internally finding stocks with upcoming fundamental catalysts that are not recognized in stock valuation. We particularly focus on out-of-favor and overlooked companies for long positions, and over-hyped stocks for short positions. We internally research and analyze stocks based on fundamental valuation while considering market expectations and investor psychology. This drives sensitivity based price targets which frame our risk/reward expectations for each individual stock.

Risk Control

Kalo places a strong focus on limiting downside risk while generating returns. In addition to our focus on limiting downside risk in each individual name, we use a diversified and unlevered portfolio. Individual position sizes typically range from 1-6%, and the portfolio's typical net exposure is 40%, gross long exposure is 75%. We will reduce net and gross exposure levels when we view market risks as high. For those investors who desire a more aggressive risk/return profile, we offer the Kalo PLUS strategy which increases all positions 1.5x.

Transparency

Kalo believes it is critical to have investors and management interests aligned. The majority of the Portfolio Manager's personal assets and significant family assets are invested. Kalo utilizes an independent third party administrator and a different independent auditor. The Investment Manager also offers the ability to invest via separately managed accounts for all investors.

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Investment Team

Steven D. Friedman, CFA

Steven D. Friedman is the founder and Chief Investment Officer of Kalo Capital Management, LLC and Kalo Capital Management, LP. Steven has sixteen years of hedge fund investing experience in the Emerging Growth space. Prior to Kalo, Steven was a Portfolio Manager at Manalapan Oracle Advisers (2009-2010), and briefly served as a Proprietary Trader (Aug-Dec 2008). Steven first became a Portfolio Manager where he was hand selected to be one of an elite group in the Emerging Manager program at Pequot Capital Management (2006-2008). Previously he was a Senior Analyst at Feirstein Capital Management (2001-2006) where he was first introduced to hedge fund investing in the Emerging Growth space. Earlier in his career Steven was a financial analyst at Lazard Frères & Co. (1996-1998). Steven graduated from the University of Michigan with a Bachelor of Business Administration degree with Distinction (1996) with a concentration in Finance and Mathematics. He earned his Master of Business Administration from Columbia Business School (2001). He has been a CFA Charterholder since 2005 and is an Investment Adviser Representative in the state of New Jersey.

Tony Alaimo, CFA

Tony Alaimo is an analyst at Kalo Capital Management. Prior to joining Kalo in 2014, he spent seven years as an equity research analyst at Axiom International Investors, a $12 billion dollar global equity manager. He has experience as a global equity generalist and financial services specialist. Tony graduated from Sacred Heart University (2006) with Bachelor of Arts degrees in Finance and Economics. He has been a CFA Charterholder since 2011.

LEGAL DISCLAIMER

This document is intended for information purposes only. It is not an invitation or offer to purchase interests in any Fund. Any representation to the contrary is not permitted.

Performance and other quantified metrics shown here are estimates. Actual investor returns will differ. Past performance is not necessarily indicative of future results.

Any Fund or investment involves risk. Potential investors must familiarize themselves with the offering materials related to such investment and must meet certain investment sophistication levels in order to make such investments and must be able to fully absorb the risk associated with such investments. The Offering Memorandum for the Fund and related Subscription Agreement and Limited Partnership Agreement will be made available to those who demonstrate the capacity to evaluate the risks and merits of this investment.

The past performance of any Fund or investment discussed herein is no indication of future results that may be achieved by an investment in the Fund. The Benchmark indices presented in these materials may or may not hold substantially similar securities to those held by the funds referred to herein, and thus, little correlation may exist between the Funds' historic return and those such indices and there is no guarantee that any correlation which may have existed will continue to do so in the future.