January 17, 2020

Quarterly Report - Kalo Capital Management, LP

Recent Performance

Net Performance	Q1 2019	Q2 2019	Q3 2019	Oct 2019	Nov 2019	Dec 2019	Q4 2019	YTD 2019	Trailing 2 Year (Jan'18-Dec'19)
Kalo Capital Mangement, LP	**14.0%**	**1.9%**	**(0.1%)**	**0.8%**	**(0.1%)**	**(0.9%)**	**(0.2%)**	**15.8%**	**21.3%**
Russell 2000 (IWM)	14.6%	1.9%	(2.3%)	2.7%	4.1%	2.8%	9.9%	25.4%	11.4%
S&P 500 (SPY)	13.5%	4.2%	1.8%	2.2%	3.6%	2.9%	9.0%	31.2%	25.2%
Small Cap Momentum ETF (DWAS)	16.1%	6.9%	(7.3%)	2.8%	5.8%	5.0%	14.2%	31.4%	17.4%
Gross Alpha Performance	13.6%	3.1%	1.2%	(0.2%)	0.2%	(1.7%)	(1.7%)	16.5%	30.2%
Gross Beta Performance	4.0%	(0.5%)	(0.9%)	1.4%	(0.3%)	0.8%	1.9%	4.5%	1.2%

In the fourth quarter, Kalo lost 0.2% net versus a gain of 9.9% for the Russell 2000. The stock markets rose materially in the quarter driven by capital flows and the Federal Reserve actions. Since September the Fed has been providing liquidity to the "repo" short-term financing market which we believe has been bringing excess capital flows to equities pushing markets up. The Fed also cut interest rates at the October meeting (the third cut of 2019) and the US/China trade war tensions eased with a Phase One deal being reached. These factors have propelled the S&P 500 to new all-time highs. Given our conservative positioning through much of Q4, losses from our shorts and hedges offset gains from our longs during this broad directional market move.

Entering Q4 we had concerns the economy might be slowing and that US/China trade war tensions could worsen, and thus kept our net and gross exposure levels low. Instead, the driving force in the quarter came from the Fed repo purchasing which created excess capital flows to equities (much like QE "Quantitative Easing" in the past).

Seeing the recent material losses from our shorts, we self-reflect. Our view is we are in a period where valuations don't seem to matter. Stocks with already high valuations continue rising driven by index funds and capital inflows which lead to valuations that may not be warranted. Several of our short positions have hurt performance as they moved to extreme valuations. However, we feel these extended valuations will eventully revert to more reasonable levels. On the flip side, our longs also broadly moved higher in Q4, but haven't experienced nearly as dramatic a valuation spike due to our focus on out-of-favor or overlooked names that don't get pushed up as much from equity capital flows.

Put another way, much of our recent losses from shorts have been driven by valuation levels being extended (a short to medium term phenomenom we don't expect to maintain). Conversely, the gains in our longs have been driven more by cumulative fundamental performance, cash flow development, and growing investor awareness (which has a long term impact that we expect to generally maintain even in a market pullback). Thus over a broad market cycle that includes both bullish and bearish times, alpha generation will be more apparent.

Current View Ahead

Looking ahead, the market feels euphoric. The US and China have completed a phase one deal which certainly eases pressures (although still leaves much unresolved), and the economy seems stable (although there are still some indications of cracks forming). Early indications from quarterly earnings seem the same (stable, but some cracks). We have a generally positive economic view, and expect general strength across our long portfolio, which we believe has significant upside potential. For the broader market, we are concerned that recent gains have gone

KALO CAPITAL MANAGEMENT, LP 157 BROAD STREET, SUITE 305, RED BANK, NJ 07701
TEL: (732) 860-5256 FAX: (877) 860-6238 EMAIL: SFRIEDMAN@KALOCAP.COM

too far too fast, and are potentially due for a pullback. As 2020 proceeds, we also expect the upcoming presidential elections to be significant. If Trump loses the election, we believe the broader market will fall significantly. Given our concerns, we continue to hold hedges in addition to individual stock shorts, in order to keep our net exposure level in check and protect against a market pullback.

Our current delta-adjusted exposure level is 85% long / 44% short for a positive 41% net, typical levels for us.

As always, our views are not set in stone and we will react to changing circumstances.

Q4 2019 Review

In Q4 2019, we roughly broke even with total net performance of -0.2%. Our longs generated 556 gross bps of performance, our shorts cost us 355bps, and our hedges cost us another 213bps. Our longs underperformed versus the market in the quarter, rising only 6.6% on average versus the 9.9% Russell 2000 increase. This resulted in a negative 1.7% alpha in the quarter.

Kalo Capital Management LP Net Performance			-0.2%
	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	556	84%	6.6%
Shorts/Hedges	(568)	-49%	11.5%
Russell 2000 (IWM)			9.9%

Alpha (Gross performance from stock selection)	-1.7%
Beta (Gross performance from exposure)	1.9%

2019 Full Year Review

For the full year of 2019, we gained 15.7% net. Our longs generated 3900 gross bps of performance, our shorts cost us 1400 bps, and our hedges cost us another 600 bps. Our longs significantly outperformed the Russell 2000, rising 47% on average versus the Russell 2000 25% increase. This resulted in a positive gross alpha of 16.5% for the year.

Kalo Capital Management LP Net Performance			15.8%
	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	3,917	83%	46.9%
Shorts	(2,011)	-65%	31.1%
Russell 2000			25.4%

Alpha (Gross performance from stock selection)	16.5%
Beta (Gross performance from exposure)	4.5%

Insight Into How We Think About Stocks

Below is an example of stock-specific commentary to give insight into how we think about stocks.

CARDLYTICS (CDLX)

We wrote about Cardlytics last year. Cardlytics is a classic example of a cumulative business model, penetrating a market, with significant operating leverage and a stock not commonly owned.

On a fundamental level, Cardlytics provides a more efficient advertising service for business customers providing it with an excellent roadmap to penetrate a large existing market. Cardlytics has a cumulative business model, a growing user base to leverage, and significant earnings power in future years once it has ramped and gained scale. At a stock level, the stock is not a well-known name, without broad ownership, so its stock price did not have high investor expectations, thus giving it an excellent risk/reward based on our valuation analysis. During 2019 the business has ramped as expected. As other investors learned of the stock its stock price moved dramatically higher.

We still have a position in CDLX and believe it still has more upside. However, we have been scaling back our position as it has ramped and the risk/reward in the stock has shifted.

TOREX GOLD (TORXF)

Torex Gold is a gold mining company. While it is atypical for us to hold a precious metal mining company, Torex is unique. Torex has developed a process, known as Muckahi, which allows underground precious metal to be mined more efficiently than traditional methods. This process allows mines to be dug deeper into the ground, improve efficiency and extend the life of traditional mining sites, dramatically lowering costs. This process is patented and will be proven with Torex's own gold mine, and then outsourced to other mining companies.

Torex also operates a traditional gold mine, bringing cash flows to support their investment in the new Muckahi process. Further, even if the Muckahi process ends up being a disappointment, the downside risk in the stock is limited as there is cash-flow based valuation support from its traditional gold mining.

Below are the key reasons we like the stock:

Large potential market with real benefit to industry: The Muckahi process is intended to materially improve the efficiency of underground mining and extend the life of traditional precious metal mines. The Muckahi process is expected to achieve up to 30% reduction in underground mining capital expenditures, up to 30% reduction in mining operating expenses, up to 80% reduction in time between investment and revenue, and allow for digging at 30 degrees slope (4x traditional slope).

Muckahi process is close to realization and largely proven: Several steps in the Muckahi process have already been demonstrated. The system overall should be operating on a Torex owned mine in the coming quarters.

Development is fully funded (no near-term capital needs): Torex is already fully funded and generating positive cash flows from its existing traditionally mined gold mines.

Future business model is capital light: Torex intends to monetize the Muckahi technology as an outsourced solution for other mining companies, likely on a royalty basis.

Expectations are low. Most of today's valuation is based on operating the existing gold mines, not the potential cash flows from the Muckahi technology. This gives valuation support and limits downside risk if Muckahi does not work as hoped. At the same time, if Muckahi proves successful and the technology is licensed out as expected, there is significant upside potential in the stock.

Conclusion

We continue to find new long ideas and are optimistic in our ability to generate strong alpha return. Our net exposure is at typical levels, but we remain uncertain about the next steps for the market and are concerned by the volatility that could accompany the upcoming 2020 elections.

The fund remains open to new investments and we encourage anyone potentially interested to reach out to us. 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.

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. This commentary does not constitute an offer to sell or a solicitation of an offer to buy securities and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product.

Any views presented on individual stocks or other financial instruments are intended for informational purposes only. Kalo Capital Management ("Kalo") undertakes no obligation to correct, update, or revise the views presented or to otherwise provide any additional materials. Kalo may hold a position in any companies discussed and may change its views about or investment position at any time. Kalo disclaims any obligation to notify the market of any such changes. Views may include forward-looking statements, estimates, projections, and opinions, which may prove to be substantially inaccurate and are inherently subject to significant risks and uncertainties beyond Kalo's control. Although Kalo believes its views presented here are substantially accurate in all material respects, Kalo makes no representation or warranty, express or implied, as to the accuracy or completeness, and Kalo expressly disclaims any liability (or any inaccuracies or omissions therein). Potential investors and others should conduct their own independent investigation and analysis of any views and of the companies mentioned.

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.

KALO CAPITAL MANAGEMENT, LP 157 BROAD STREET, SUITE 305, RED BANK, NJ 07701
TEL: (732) 860-5256 FAX: (877) 860-6238 EMAIL: SFRIEDMAN@KALOCAP.COM