October 5, 2021

Quarterly Report - Kalo Capital Management, LP

Net Performance	Jul'21	Aug'21	Sep'21	Q3'21	YTD 2021		Trailing 2 Year (Oct'19-Sep'21)
Kalo Capital Management, LP	(7.2%)	(6.6%)	(4.1%)	**(16.9%)**	**(8.7%)**		**25.9%**
Russell 2000 (IWM)	(3.6%)	2.2%	(2.9%)	(4.3%)	12.3%		48.1%
S&P 500 (SPY)	2.4%	3.0%	(4.7%)	0.6%	15.9%		49.5%
Small Cap Momentum ETF (DWAS)	(5.7%)	2.8%	1.0%	(2.1%)	16.8%		76.4%
Gross Alpha Performance	(7.0%)	(8.2%)	(2.9%)	(16.9%)	(12.8%)		27.0%
Gross Beta Performance	(1.8%)	1.3%	(1.2%)	(1.7%)	6.5%		11.2%

Performance

In the third quarter, Kalo lost 16.9% net versus a 4.3% loss for the Russell 2000, bringing our year-to-date performance to -8.7% vs. +12.3% for the Russell 2000.

Microcap stocks continued to languish in Q3, suffering from continued dried up liquidity and little investor appetite. Meanwhile, broader indices fluctuated up and down throughout the quarter without really going anywhere.

I perceive the current market as being driven by fund flows. More and more fund flows seem to go into the same well-known stocks regardless of valuation. Meanwhile, those stocks that are not established and commonly held continue to be disregarded, again, regardless of valuation. There seems to be little appetite for investors to seek out new names with exciting upside at bargain valuations. As a result, our long positions continued to disappoint in the quarter.

We maintain that buying fundamentally growing businesses that are being overlooked by the market and have strong valuation-based risk/reward is a sound strategy. While our portfolio of such names has disappointed recently, we have a long history of success with this strategy. These companies continue to build their customer base and revenue streams along with cash flow generating power. We maintain conviction that in time investors will turn their attention to these less trafficked stocks and valuations will recover, leading to material positive performance. It is always difficult to time when these stocks will come back in favor, but we are anticipating that our stocks will regain momentum and recapture alpha performance.

In light of the broad weakness across these underfollowed microcap stocks, we have established some new positions or re-established positions in stocks we had previously exited higher. Our exposure is currently 91% long / 58% short, for 33% net. We continue to hold a significant short position (heavily weighted in indices) as we believe the market is inflated and holds significant risk.

Investment Spotlight: PowerFleet (PWFL)

PowerFleet is a leading global provider of subscription-based Internet of Things (IoT) software and solutions to fleet owners of trucks, tractor trailers, material handling equipment, containers, cargo, and other vehicles. The company is a product of the 2019 merger of I.D. Systems and Pointer Telocation. Through a variety of hardware and software offerings, customers can track, analyze, and optimize their fleets, providing complete supply chain visibility and ultimately leading to reduced costs and improved safety and efficiency.

With a revenue base that is 60% recurring high-margin software and growing due to strong secular tailwinds, combined with low capital needs, we believe it is only a matter of time until the shares reflect the underlying quality of the business. The company boasts over 600,000 customers, which includes the likes of Nestle, Walmart, Toyota, 3M, and Starbucks, and continues to grow the top-line by 15% per year organically on the back of increased requirements for technology-based asset tracking and data.

By 2024, we believe they can meet and even exceed their $200M revenue at 25% EBITDA margins target, leading to the current company trading at only ~4x out-year EBITDA with a highly visible recurring revenue stream. We think that is far too cheap for a 15-20% organic grower with numerous tailwinds at its back. As the company continues to ramp margins via fixed cost leverage and the revenue base shifts to high-margin software sales, we see the stock propelling higher in the next couple of years as investors warm up to the story.

Conclusion

We are disappointed in recent performance but look forward to brighter returns going forward and appreciate your confidence in us. Please feel free to call to discuss anything.

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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