January 17, 2022

Quarterly Report - Kalo Capital Management, LP

Performance – Q4

Net Performance	Oct'22	Nov'22	Dec'22	Q4'22	YTD 2022
Kalo Capital Management, LP	(2.3%)	(0.2%)	0.4%	(2.2%)	(20.0%)
Russell 2000 (IWM)	11.2%	2.2%	(6.5%)	6.2%	(20.5%)
S&P 500 (SPY)	8.1%	5.6%	(5.8%)	7.6%	(18.2%)
Small Cap Momentum ETF (DWAS)	13.1%	0.5%	(6.4%)	6.4%	(18.5%)
Gross Alpha Performance	(6.5%)	(1.3%)	3.7%	(4.3%)	(11.8%)
Gross Beta Performance	4.5%	1.0%	(3.1%)	2.2%	(8.3%)

In the fourth quarter, Kalo lost 2.2% net versus a 6.2% gain for the Russell 2000, bringing our full year performance to -20.0% vs. -20.5% for the Russell 2000. Once again, the quarter had wide swings in both directions (Russell 2000 had back and forth swings of at least 5% six times over the quarter). For the quarter our longs negatively detracted 90 bps of gross performance and our shorts negatively detracted 190 bps.

Performance – 2022 Year

Net Performance	Q1'22	Q2'22	Q3'22	Q4'22	YTD 2022
Kalo Capital Management, LP	(7.5%)	(14.1%)	2.9%	(2.2%)	(20.0%)
Russell 2000 (IWM)	(7.5%)	(17.3%)	(2.1%)	6.2%	(20.5%)
S&P 500 (SPY)	(4.6%)	(16.1%)	(4.9%)	7.6%	(18.2%)
Small Cap Momentum ETF (DWAS)	(5.9%)	(19.6%)	1.2%	6.4%	(18.5%)
Gross Alpha Performance	(4.9%)	(5.9%)	3.0%	(4.3%)	(11.8%)
Gross Beta Performance	(2.4%)	(8.1%)	0.0%	2.2%	(8.3%)

For the year, Kalo lost 20.0% net versus a 20.5% loss for the Russell 2000, with our longs negatively detracting 3,790 bps of performance against our shorts which positively contributed 1,710 bps. While the Russell 2000 fell 20.5% over the full year, it had significant swings in each direction throughout the year - five months being down at least 7%, and two months up at least 10%.

Outlook

As we enter 2023, I remain very concerned about the overall stock market and economy. I continue to believe the stock market is excessively valued, propped up by years of stimulus and excessively low interest rates. While this inflated perception has clearly been downgraded over the course of 2022, there are still many parts of the market that are inflated.

I choose to focus on the start of 2020 as a benchmark, after which things went haywire. In March 2020 when Covid was initially recognized broadly as a transformative event, the markets fell quickly and then took on an epic ramp up, driven by government stimulus measures. Since early

2021, we have seen one section of the market after another lose its momentum and give back its gains since that 2020 benchmark, and in many cases fall to far lower levels. Initially it was smaller market cap stocks with less institutional backing being impacted, but then moved to larger, more established and institutionally backed stocks. Recently, even bulwarks like Apple and Microsoft have started to suffer stock losses. However, despite the current weakening economy and worse outlook for these big names compared to three years ago, they are still far above their benchmark January 2020 levels. There are many other defensive stocks where institutional money is seeking to "hide-out", materially inflating valuation multiples. This has resulted in a dichotomy in the market where many stocks have been decimated and trade at extremely low valuations with only true believers still holding the stocks, while other names are still very elevated with little concern of high valuations despite a weakening economy. We believe it is only a matter of time before this inflated part of the market corrects downward.

After multiple years of Federal stimulus, the Federal Reserve has clearly shifted to tightening during 2022, and we believe the materially higher interest rates are just beginning to impact the landscape. In just the last seven months, we have seen the one year treasury yield rise from 2% to 4.7%. These heightened interest rates, along with still high inflation, will gradually hurt the consumer's spending ability, leading to economic slowdowns that impact the fundamental performance of much of the market. We believe this will put the stocks of these 'hide out" companies with inflated valuations at risk. I believe this will contribute to significant positive performance from our shorts.

Throughout my professional history I have seen several times where equity markets have turned against smaller market cap stocks with less institutional following, resulting in significantly depressed valuations and poor performance. These experiences have helped shape Kalo's style, for long positions, focusing on companies with inherent characteristics that can grow through economic slowdowns and cumulatively build a business. Eventually the companies that are successful building their business see their stocks generate significant positive returns as valuations become too low to ignore, sometimes spurred by catalysts such as stock buybacks, cost cutting, etc. We have significant long exposure in these types of stocks. While it is always difficult to predict the timing, after almost two years of weakness, I am confident we will see several of these stocks generate positive returns in 2023 as they catch up to the fundamental improvements we've seen across many of these companies. We expect that when these longs do catch these upward moves, the magnitude of the increases will be significant, enhanced by the lack of weak-handed investors currently holding the stocks.

We are hopeful for a 2023 with positive performance from both our longs and shorts. The portfolio continues to have a roughly 40% net exposure with the gross long portion fully invested at 99%, balanced by roughly 59% short.

Investment Spotlight: DocGo (DCGO)

DocGo is a leading mobile healthcare provider offering mobile medical care and a Uber-like, non-emergency ambulance services for hospitals. By using lower cost Licensed Practical Nurses (LPN's), DocGo is able to reduce costs for healthcare systems while allowing patients to receive hands-on medical care in their home. While Medical Doctors cost $250/hour and Physician's Assistants cost $125/hour, LPN's only cost $30/hour, allowing DocGo to operate at a much lower cost base than existing solutions. DocGo sells this service to municipalities, hospitals,

corporations, and health insurance providers. DocGo's pricing model is unique. While most competitors charge fees based on the service, DocGo charges a flat, fixed rate – allowing corporate customers to keep any extra reimbursement received over their fees.

DocGo currently is operating in 28 states and is recognized as a leading mobile care solution for patients at their home. Services include bedside procedures such as pre-op testing, blood and cardiac monitoring, medication and IV administration, and preventative care such as vaccinations. They also provide urgent care for the homeless and low-income communities, medical services for events, and a variety of services for hospitals, with a client list that includes Aetna, Carnival Corporation, the state of New York, and many more. While the majority of the Mobile Health business was dedicated to mass COVID testing during the pandemic, 15 out of 17 of their mass testing contracts have been converted to non-COVID related contracts, seamlessly transitioning the company to new revenue streams. Excluding COVID testing revenue, DocGo has grown their Mobile Health revenues to ~$300M of revenues from essentially zero over the past three years, and has continued to gain momentum, with revenues in the most recent quarter growing by ~47%. They also offer a Medical Transport business that provides hospitals with on-demand, non-emergency transportation through a fleet of ambulances, providing an Uber-like experience for customers to easily order care and track patient treatment.

We believe investors mistakenly believe DocGo's business will fall off after losing their Covid related business, or are not fully appreciating the significant revenue growth outside of Covid related business that is happening. We believe DocGo is in the early stages of accelerating recurring revenue growth, primarily driven by opportunities in the Mobile Health business with significant new contract signings and a large pipeline of new potential business. We see Mobile Health momentum continuing to drive greater than 20% annual revenue growth in a huge, underpenetrated market with limited competition. As more healthcare systems realize how much money they save by utilizing DocGo, we believe growth will continue to accelerate throughout the next few years.

Although the business already has attractive double-digit EBITDA margins, we believe they could approach ~20% in a few years, leading to a near doubling of margins. With shares trading at only ~9x our 2023 EBITDA estimate, we believe the stock could double or even triple over the next few years.

Wrap Up

Our Q3 2022 letter discussed in detail many of our macro concerns. These centered around quantitative tightening, higher interest rates, and still inflated valuations among megacap stocks. Our view on these haven't changed and we continue to believe the broader market will be challenged in 2023 (albeit with volatility in both directions throughout the year).

We strongly believe our longs are in a much different stage of the market, having already been decimated and trading with little institutional backing. We expect to see them generate absolute positive performance, even in a mixed to down broader market. Our positions have taken their hits, now our holdings are well positioned to gain momentum and upside returns.

After two years of a very challenging market environment and disappointing performance, we are looking forward to 2023 and a restoration of strong returns. We appreciate your confidence in us. Wishing you, your family, and your business health and happiness.

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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