

KALO CAPITAL MANAGEMENT, LP

April 3, 2011

Dear Investor:

For the month ended March 31, 2011, the Kalo Capital Management, LP fund appreciated 0.7% on a gross basis (+0.4% net).* The Fund gained 207 bps from long positions and lost 138 bps from short exposed positions. Gains were led by two Software-as-a-service companies, Saba Software (SABA) and LivePerson (LPSN). The biggest detriment to performance came from index hedges.

While the Russell 2000 is up an impressive 7.6% YTD, Kalo hasn't kept pace, even net exposure adjusted. As discussed last month, I continue to feel that the index strength may be misleading and the upside performance was driven by certain types of stocks which Kalo did not have much exposure to. I believe that either these positive index returns will reverse, or the smaller cap, more growth-related names Kalo is exposed to, will appreciate faster than the indices.

Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Incep.
2010	Gross										2.0%	1.7%	4.6%	8.5%	8.5%
	Net										1.4%	1.2%	3.6%	6.4%	6.4%
	ROIC										3.7%	2.4%	5.2%	11.6%	11.6%
	Russ2000										1.4%	3.4%	7.8%	12.9%	12.9%
	S&P500										1.6%	-0.2%	6.5%	7.9%	7.9%
	Net Exp Gross Exp											41% 52%	57% 85%	45% 91%	48% 76%
2011	Gross	0.9%	0.4%	0.7%										2.0%	10.7%
	Net	0.6%	0.2%	0.4%										1.2%	7.7%
	ROIC	0.7%	0.5%	0.6%										1.7%	13.5%
	Russ2000	-0.3%	5.4%	2.4%										7.6%	21.6%
	S&P500	2.3%	3.2%	-0.1%										5.4%	13.8%
	Net Exp Gross Exp	40% 96%	39% 92%	39% 103%											39% 97%

* Performance and other quantified metrics shown here are estimates. Performance metrics start on October 11, 2010, when Kalo, LLC started to manage assets for a separately managed account referred to as "the tracking managed account". Performance numbers represent the tracking managed account until March 1, 2011, when the Kalo Capital Management, LP fund was launched. 'Gross' represents the gross performance. 'Net' represents performance net of a 2% management fee and 20% performance fee. 'ROIC' represents the return on invested capital, calculated as the gross performance based only on the non-adjusted invested portion of capital, calculated daily. 'Net Exp' and 'Gross Exp' represent the average net and gross exposure over the time period, where inverse ETFs are calculated as short exposure and any ultra ETFs are adjusted to reflect the multiple of its exposure. Put options are reflected as delta-adjusted. 'AUM' represents the total assets under management at the end of the month in both managed accounts and the hedge fund.

Expectations and Strategy

I feel the domestic market continues to improve as more and more companies seem to be investing in growth and hiring. On a company by company basis, I continue to be excited by the growth prospects for many of Kalo's long positions. While the stock market is up considerably from its bottom, I feel that many companies are still trading at low multiples with significant opportunity for valuation expansion. We are also entering a seasonally strong period for growth companies. Despite my growing confidence, I remain aware of macro concerns regarding Europe, the Middle East, Japan's continuing uncertainty with its nuclear plant, and US concerns about the approaching end of QE2. In total, I feel the market will continue to move up. As a

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result, I have increased gross and net exposure to participate more in market upswings with a current net exposure in the low 40's%.

I have also decided to share details about an existing investment in each newsletter, in an effort to give you better insight into the type of investments Kalo makes. This month I will discuss RF Micro Devices (RFMD). RFMD designs and manufactures RF semiconductor chips for cell phones. Fundamentally, RFMD is facing significant revenue growth opportunities driven by the growing penetration of 3G connected devices such as smartphones. When a traditional 2G cellphone is replaced with a 3G smartphone, it provides a 3-5x increase in the dollar content per phone to RFMD. RFMD also has manufacturing that is significantly underutilized, allowing them to have significant incremental operating leverage as revenue grows. Incremental operating leverage is a key item I look for across many investments, as it often leads to situations where companies can far exceed sell-side analyst expectations. Despite this exciting growth story, RFMD trades at a lowly 11x P/E multiple (based on analyst consensus for year ending Mar. 2012). This is partially attributable to concerns about their significant exposure to Nokia, who has been losing market share. However, I feel this and other concerns are well understood by the market, and are shorter term in nature. Of course, there is much more to the story, and I am happy to discuss in more detail if you would like.

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

I appreciate your continued support.

Sincerely,



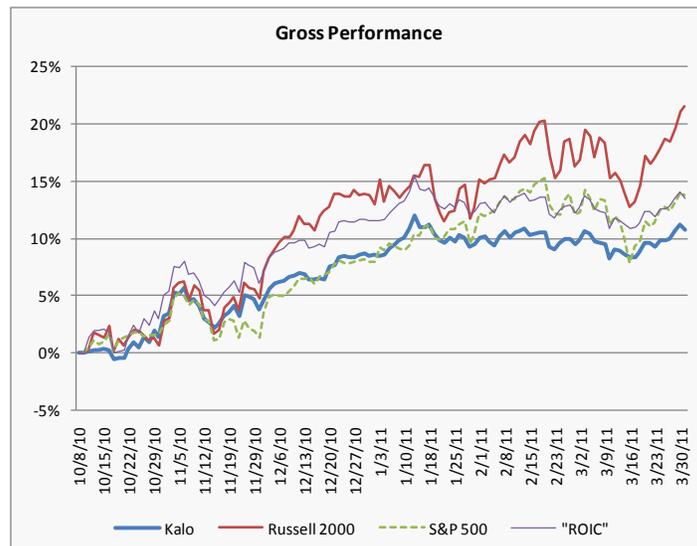
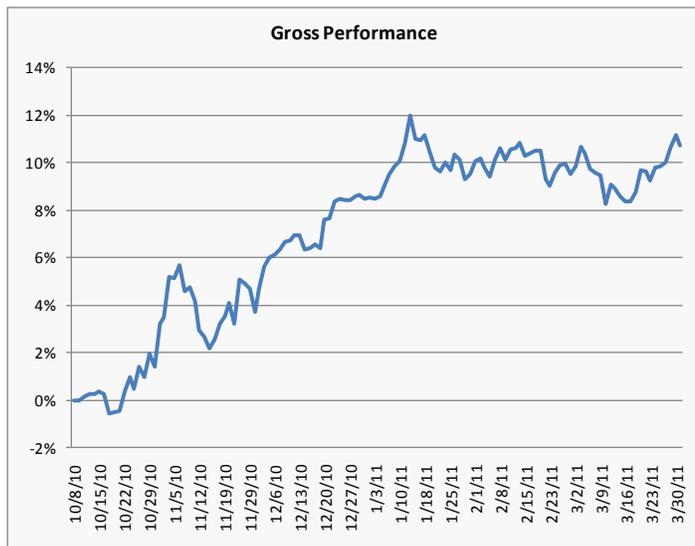
Steven D. Friedman
Founder and Chief Investment Officer

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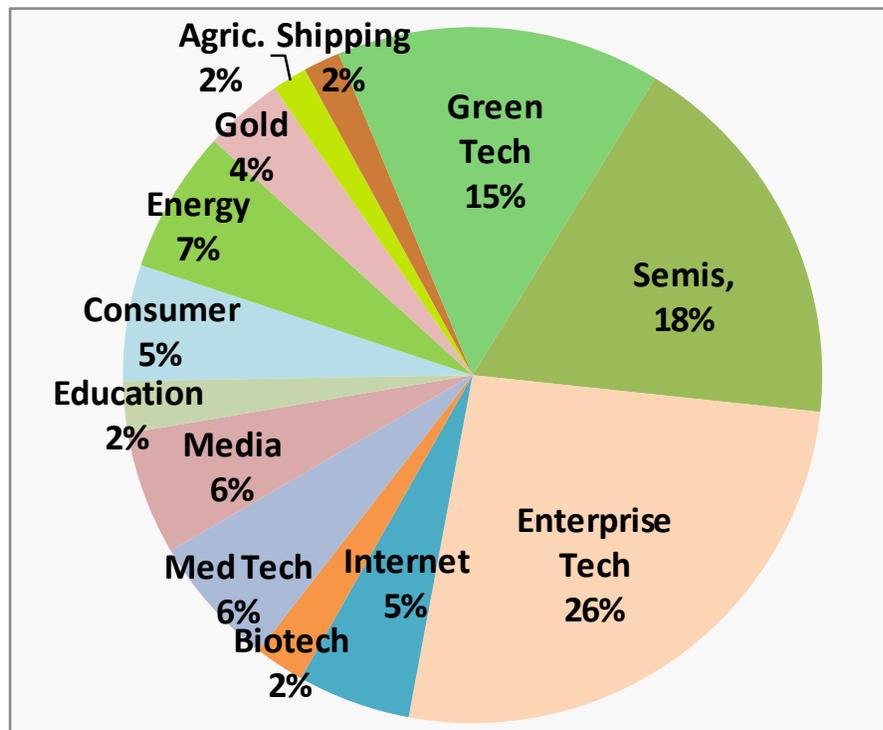
Assets Under Management

Kalo AUM (\$M)	
Fund	\$2.7
Managed Accounts	\$3.0
Total AUM	\$5.7

Historical Performance



Month End Long Exposure Breakdown



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OVERVIEW OF KALO CAPITAL MANAGEMENT

Background

Steven Friedman is the founder and Chief Investment Officer of Kalo, LLC ("Kalo"), and manages a long/short equity strategy focused on emerging growth opportunities. Kalo manages the Kalo Capital Management, LP fund ("The Fund"), as well as separately managed accounts.

Strategy

The Fund primarily focuses investments on US listed emerging growth companies characterized by large open-ended growth opportunities, disruptive technologies, disruptive business models, or changing industry dynamics. These investments may occur in any sector but are commonly in the following sectors: internet, technology, media, telecom, alternative energy, medical devices, and manufacturing. In addition, the Fund will trade other stocks long and short that it believes are temporarily undervalued or overvalued.

The Fund believes there is more potential for consistent, outsized returns in long positions over time as companies grow. Thus, the Fund favors having a net long exposure. However, the Fund also looks to hedge these long positions with index and company-specific short exposed positions to create additional alpha, smooth returns and limit drawdowns. This risk control enables the Portfolio Manager to take advantage of market contractions.

Bullish positions typically consist of fundamental positions and trading opportunities, while bearish positions consist of fundamental shorts, trading opportunities, and index hedges. The majority of the Fund's positions will be in equities. Derivatives are used opportunistically in order to: make an investment with extremely high volatility, create a hedge to a specific position or portion of the portfolio, or to gain additional exposure to an idea.

Investment Philosophy

The Fund's objective is to produce relatively low volatility returns with consistent alpha primarily by identifying emerging growth opportunities that are fundamentally mispriced by the market. Throughout many industries, companies bring products/services to the market that have the opportunity for extremely fast-paced growth. Many of these opportunities are caused by the introduction of disruptive technologies, disruptive business models, and changing industry dynamics. When these transforming events occur, the Fund believes well managed companies positioned properly can achieve superior growth and offer the opportunity for attractive stock returns.

The Portfolio Manager believes that the market often misprices these emerging growth stories. This provides the Fund the opportunity to build positions when it believes that the general market is not appropriately valuing the stock. This opportunity is often caused by the following:

- **The market broadly values companies on near term results, disregarding longer term results.** The market focuses on valuation multiples looking out 1-2 years, initially disregarding the following years. However, many of these opportunities see accelerating EPS growth 2-4 years out, driven by operating leverage and economies of scale, which the market overlooks. By establishing an investment before the market focuses on these outer years, we believe that the Fund may earn consistent alpha.
- **The investor community often develops unrealistic financial expectations.** These inflated expectations can be caused by a lack of industry understanding, irrational exuberance, and management hype. This creates opportunities for short sale investments.

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- **Sell-side analysts often don't recognize or acknowledge the sales growth and/or leverage impact that can occur during certain inflection points.** The Fund believes that sell-side analysts will generally only be comfortable forecasting a certain amount of fundamental growth, even when evidence points to more significant growth, in order to not be recognized as overly bullish. This situation often leads to companies significantly exceeding earnings expectations, despite the stock being known by the investment community.
- **The broader market often over-reacts to positive or negative events.** These over-reactions cause dramatic stock price movements, which may create opportunities with relatively low downside risk when a stock is overly depressed as well as short opportunities when a stock is inflated.
- **Many emerging growth companies are not well known by the broader market.** Many emerging growth companies are under followed by sell-side analysts, and thus are either unknown or not well understood by the investor community. Discovering these companies before the general market creates the opportunity to make an investment while it is undervalued.

The Fund believes that traditionally investments focused in this space have been characterized by attractive returns accompanied by very high volatility. The Portfolio Manager believes it is possible to capture most of these inherent returns with reduced volatility by using a balanced, diversified, and hedged portfolio approach, supported by rigorous fundamental and stock technical analysis. The Fund will also utilize options to control downside risk. The Fund targets absolute performance with low drawdowns, but expects better absolute performance in up or flat markets, than in down markets.

Investments

Fundamental Longs and Calls: Emerging Growth Opportunities

The Fund believes emerging companies with good business models create an excellent investment vehicle for outsized returns. The future earnings power of companies with certain key characteristics are often under-appreciated, creating the investment opportunity. The key characteristics the Fund looks for include:

- Large open-ended growth opportunity.
- Markets with low, but growing penetration.
- Demonstrated traction with their customer base.
- Leading market share.
- Significant barriers to entry
- Profitable business model with significant operating leverage.
- Recurring revenues.
- Sufficient capital.
- Potential for above average returns based on future market multiples, combined with limited downside risk.
- Good technical trading pattern.

Fundamental Shorts and Puts: Deteriorating or Flawed Fundamentals

The Fund primarily looks for two types of fundamental bearish positions, i) emerging growth companies that the Portfolio Manager feels are fundamentally flawed and likely to decline; and ii) companies impacted by industry changes such as increasing competition or shifting demand; . As industries change, many companies' products/services become inferior to ramping new

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technologies. When this momentum occurs, these companies often face significant challenges and suffer from dramatic reductions to their earnings power. The Fund looks to short these names when the investment community does not fully realize this market shift is occurring, or how significant it will hurt the earnings power of the Fund.

Trading Opportunities

The Fund opportunistically invests in stocks that may have imminent catalysts, have had dramatic price fluctuations, or other timely traits. Occasionally, the Fund recognizes imminent potential catalysts that it believes will impact near term stock prices. Stocks that see dramatic price fluctuations in either direction often are exaggerated and create the opportunity for a quick rebound to earlier levels. These opportunistic investments tend to be of shorter duration than the fundamental positions and occur on both the long and short side.

Hedges

The Fund often hedges long positions with index and company specific short exposed positions, in order to limit drawdowns when the stock market contracts. A portion of these hedges typically consist of index ETFs.

Steven D. Friedman, CFA Background

Steven Friedman is the Founder and Chief Investment Officer of Kalo,LLC and Kalo Capital Management, LP. Previously, Steven was Portfolio Manager at Manalapan Oracle Advisers (2009-2010), Proprietary Trader at Madoff Securities (Aug-Dec 2008), Portfolio Manager at Pequot Capital Management within the Emerging Manager program (2006-2008), senior analyst at Feirstein Capital (2001-2006), and financial analyst at Lazard Frères & Co (1996-1998) . Steve graduated from the University of Michigan (1996) and Columbia Business School (2001). Steven has also been a CFA Charterholder since 2005.

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