

KALO CAPITAL MANAGEMENT, LP

May 3, 2011

Dear Investor:

For the month ended April 30, 2011, the Kalo Capital Management, LP fund appreciated 1.2% on a gross basis (+0.8% net).* The Fund gained 206 bps from long positions and lost 85 bps from short exposed positions. Gains were led by two semiconductor power chip companies (IXYS and FCS) that are benefitting from manufacturers' focus on power efficiency. Coinstar (CSTR) rebounded from a weak earnings report earlier in the year to contribute strongly to the month. And Vocus (VOCS), a software-as-a-service company, moved up strongly driven by continued impressive ramp in its business and its low valuation relative to its comps. The biggest detriments to performance came from index hedges and MIPS (MIPS), a semiconductor company that saw disappointing momentum in its business.

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%
	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%	48% 76%
2011	Gross	0.9%	0.4%	0.7%	1.2%									3.3%	12.1%
	Net	0.6%	0.2%	0.4%	0.8%									2.1%	8.6%
	Russ2000	-0.3%	5.4%	2.4%	2.6%									10.4%	24.7%
	S&P500	2.3%	3.2%	-0.1%	2.8%									8.4%	17.0%
	Net Exp Gross Exp	40% 96%	39% 92%	39% 103%	40% 111%									40% 100%	43% 90%

* 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.

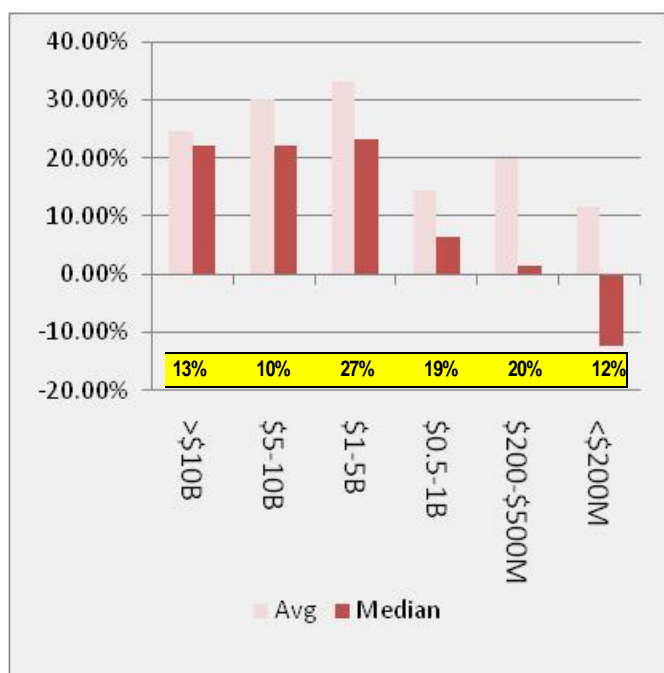
Expectations and Strategy

Many companies have already had their quarterly earnings conference calls. In general, I feel upbeat about fundamentals after hearing the calls with continued demand for many products and services. However, there are also continuous signs of pressure from raising input costs from raw materials, and many companies are starting to push through price increases to customers. This inflation impact is certainly a risk. In addition, the coming end in June of Fed liquidity could stop some of the wind that has been supporting the market. And, I have significant concerns about government debt issues and the weak job market. In total, I still feel optimistic that the economy will continue to grow, but less optimistic about the stock market.

I continue to keep Kalo's net exposure around the 40% level, in order to benefit from continued market strength, but not be too exposed if we get a downturn.

KALO CAPITAL MANAGEMENT, LP

The Russell 2000 is up 10.4% YTD, continuously shrugging off macro concerns in the economy. Upon a quick glance at the Russell 2000's start to the year, vs. +8% for the S&P 500, it looks like small caps are leading the drive. However, upon digging in for a closer look, I find that many of the micro-cap growth companies have been significantly underperforming YTD in 2011. The graph below shows the YTD average and median gains for the 700+ companies on the Kalo radar screen I observe. You can see from the chart, those companies with smaller market caps (those to the right), have underperformed those with larger market caps (those to the left). Overlaid in yellow is the current portion of long exposure in each category. As you can see, Kalo has roughly 50% of its exposure in market caps under \$1 billion, which have been significantly underperforming. It is difficult to know when trends like this reverse. Consequently, I focus on owning positions that continue to grow their fundamental business, with the expectation that the stock appreciations will follow at some point.



Stock Idea

This month I would like to share details about Allscripts (MDRX). Allscripts provides clinical software to physicians and is well positioned to benefit from the rapid adoption of Electronic Health Records (EHR). As you may be aware, the US government has already adopted stimulus measures to entice the healthcare system to implement electronic health record systems. This \$30 billion stimulus has already been approved, and it is expected that 70% of this money flow between 2011-2013. Recently, Cerner, a competitor, communicated that the industry is acting well with lots of customers showing significant buying interest.

Allscripts has an existing business providing clinical software used by physicians (used for things such as dictation, ordering tests, documenting, electronic prescribing, etc.). Implementing electronic health records is a natural extension of these services and will lead to significant growth for Allscripts.

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In addition, Allscripts recently acquired a competitor (Eclipsys) and is expecting to benefit from significant revenue and cost synergies. 60% of Allscripts revenues are recurring providing nice fundamental support. In addition, Allscripts trades at a lower multiple than its competitors.

I generate a price target of \$26-38 (currently at \$21.44) for MDRX, based on a 25x P/E and 12x EBITDA multiple in the 2012-2014 projections. Plus, given the tremendous size of the EHR marketplace, there is potential to grow beyond this.

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

I appreciate your continued support.

Sincerely,



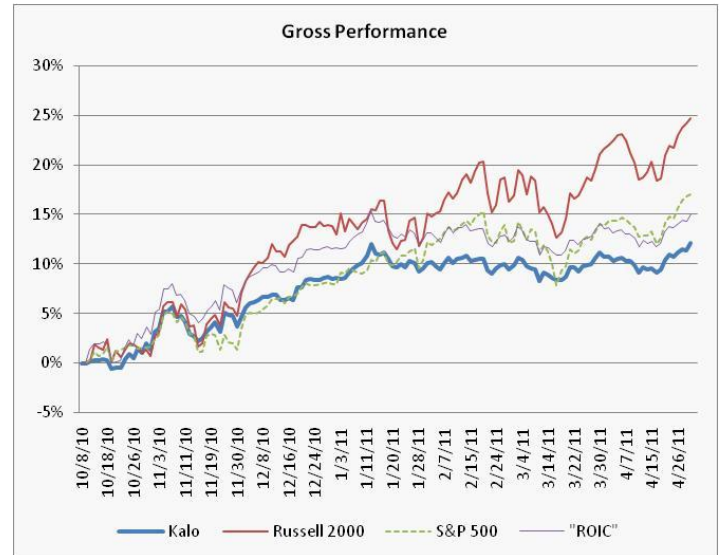
Steven D. Friedman
Founder and Chief Investment Officer

KALO CAPITAL MANAGEMENT, LP

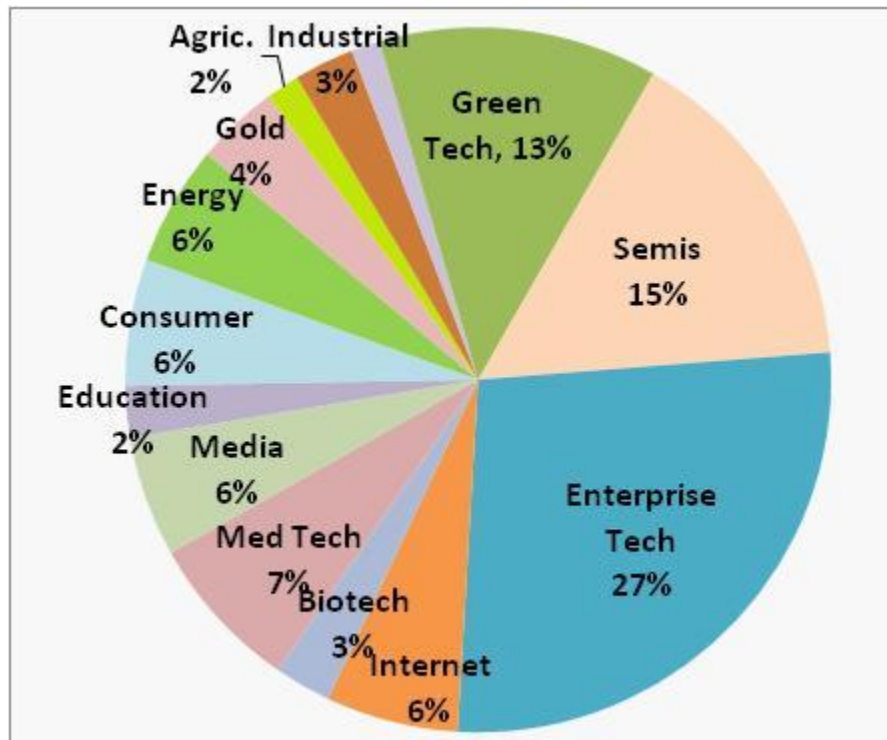
Assets Under Management

Kalo AUM (\$M)	
Fund	\$2.8
Managed Accounts	\$3.0
Total AUM	\$5.8

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.

KALO CAPITAL MANAGEMENT, LP

- **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

KALO CAPITAL MANAGEMENT, LP

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 significantly it may hurt the earnings power of the company.

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 D. 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.

* Federal prosecutors have stated that the proprietary trading desk was unrelated to Mr. Madoff's fraudulent investment management business. It was later sold in March 2009.

KALO CAPITAL MANAGEMENT, LP

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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.

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