August 8, 2011

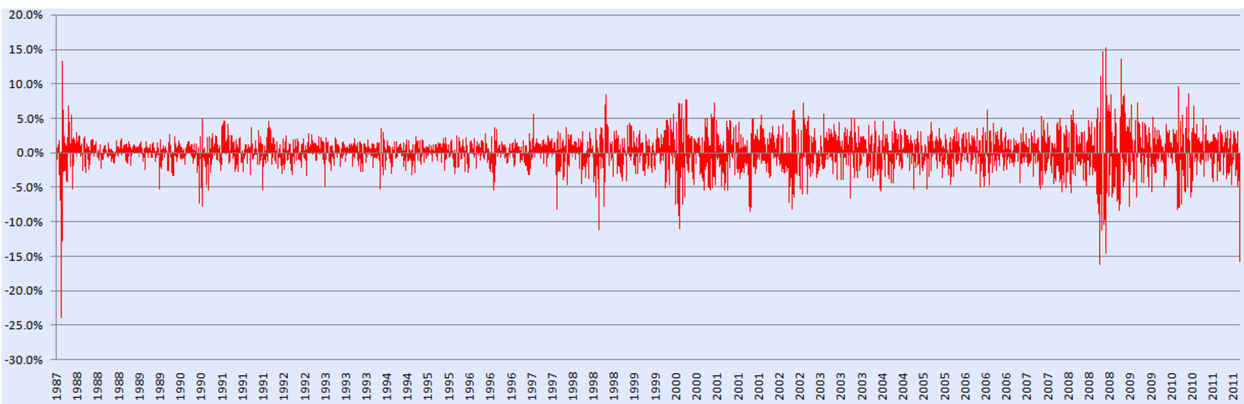
Dear Investor:

July Update

For the month ended July 31, 2011, the Kalo Capital Management, LP fund depreciated 1.4% on a gross basis (-1.3% net). The Fund lost 300 bps from long positions and gained 150 bps from short exposed positions. Gains were led by a Apple (AAPL), RF Micro Devices (RFMD), and an inverse Russell 2000 position (TWM). The biggest detriments to performance came from Digital River (DRIV), LivePerson (LPSN), and IntraLinks (IL).

August Update

The market has finally awoken to the major economic concerns overhanging the U.S. and the world. With the stock market swooning, I believe the question of how much the economy may be slowing is now moot, as the stock market swoon will lead consumers to cut back on spending and make a slowdown a self-fulfilling prophecy. Since July 8, the Russell 2000 has fallen 24%, while Kalo's gross performance has fallen 8.4%. I had reduced the gross long and net exposure of Kalo leading up to and during this fall, but am disappointed I had not chosen to do this more. While I am displeased with the absolute performance of Kalo during this time period, the objective of limiting the losses on the downside is evident in the numbers. Just how bad has it been? The following graph shows trailing 3 days performance of the Russell 2000 since 1987 (down almost 16% over the last 3 days). As you can see, we've only fallen this far this fast three other times (twice in late 2008 and once in 1987).



At this stage Kalo's net exposure is roughly +20% and its gross long exposure is roughly 55%. The exposure levels of both have been gradually reduced over the prior weeks, before being raised today. I expect to add longs opportunistically, while still keeping the gross long exposure level low. Net exposure is likely to stay near current levels or increase. While the market will stabilize at some point, likely with a small bounce, I do not expect it to bounce back strongly in the near future.

Upon analyzing the annual deficit levels and projected future deficit levels of the U.S., it is difficult not to be glum. Consider that the current total debt is roughly $14 trillion. The annual deficit for 2011 is expected to be $1.6 trillion. Using this $1.6 trillion as a baseline... over 10 years that equals $16 trillion of new debt for the country (and this flatline assumption is likely conservative given the regular increases in entitlement spending that has been occurring). When looking at these absolute numbers, it is simple to see that a $2.4 trillion cut on projections over

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ten years (projections which had a baseline spending above 2011 amounts), doesn't make much of a dent in the problems of the U.S. By taking my example $16 trillion of new debt + $14 trillion existing = $30 trillion 2021 debt, versus current US GDP levels around $14 trillion. This future 200% debt/GDP clearly looks very ugly. Of course, this isn't new. What is new is the focus that this is getting now. And with the economy now clearly weakening, the revenues of the government will likely contract, while entitlement spending won't, potentially making this all worse. The good news is that this is getting attention and hopefully will lead the government to make real changes to alter the direction of our fiscal situation. If you're interested in more details about the financial state of the U.S., I would suggest reviewing the 2011 Budget Chart Book, found at the following link www.heritage.org/budgetchartbook (Note: I have no personal opinion of the Heritage Foundation, but find the Chart Book of data to be extremely enlightening, and worthwhile of every American's time to at least flip through.)

Performance (August 2011 performance is through August 8)

		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										41%	57%	45%	48%	48%
	Gross Exp										52%	85%	91%	76%	76%
2011	**Gross**	**0.9%**	**0.4%**	**0.7%**	**1.2%**	**-2.4%**	**-0.1%**	**-1.4%**	**-5.3%**					**-6.0%**	**2.1%**
	Net	**0.6%**	**0.2%**	**0.4%**	**0.8%**	**-2.0%**	**-0.2%**	**-1.6%**	**-5.5%**					**-7.2%**	**-1.3%**
	Russ2000	-0.3%	5.4%	2.4%	2.1%	-1.5%	-2.5%	-3.7%	-18.3%					-16.9%	-6.2%
	S&P500	2.3%	3.2%	-0.1%	2.6%	-1.1%	-1.8%	-2.1%	-13.4%					-11.0%	-3.9%
	Net Exp	40%	39%	39%	40%	38%	31%	35%	26%					36%	39%
	Gross Exp	96%	92%	103%	111%	110%	110%	99%	95%					102%	95%

* Performance and other quantified metrics shown here are estimates for the EGRV (Emerging Growth with Reduced Volatility) Strategy. 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.

I appreciate your continued support.

Sincerely,

Steven D. Friedman
Founder and Chief Investment Officer

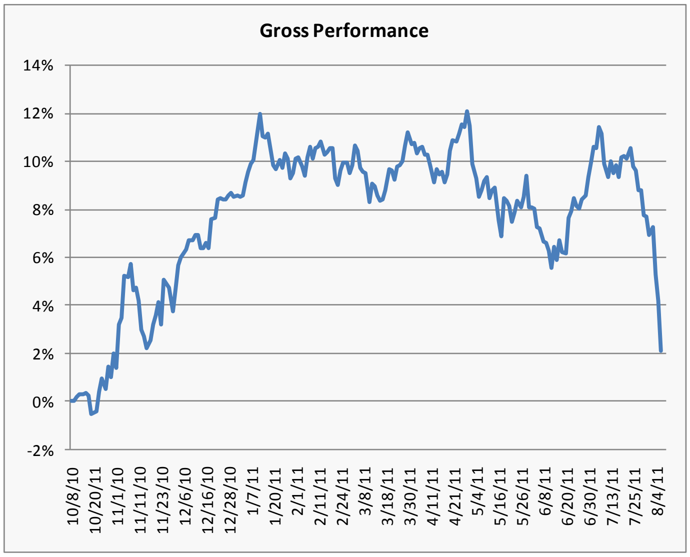
Please note that Kalo's expectations and strategy can change regularly and the views expressed here may change.

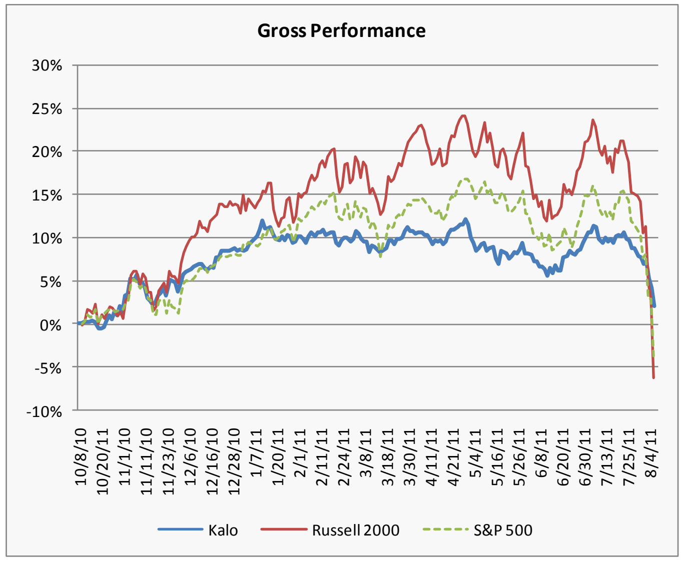
KALO CAPITAL MANAGEMENT, LP

Assets Under Management

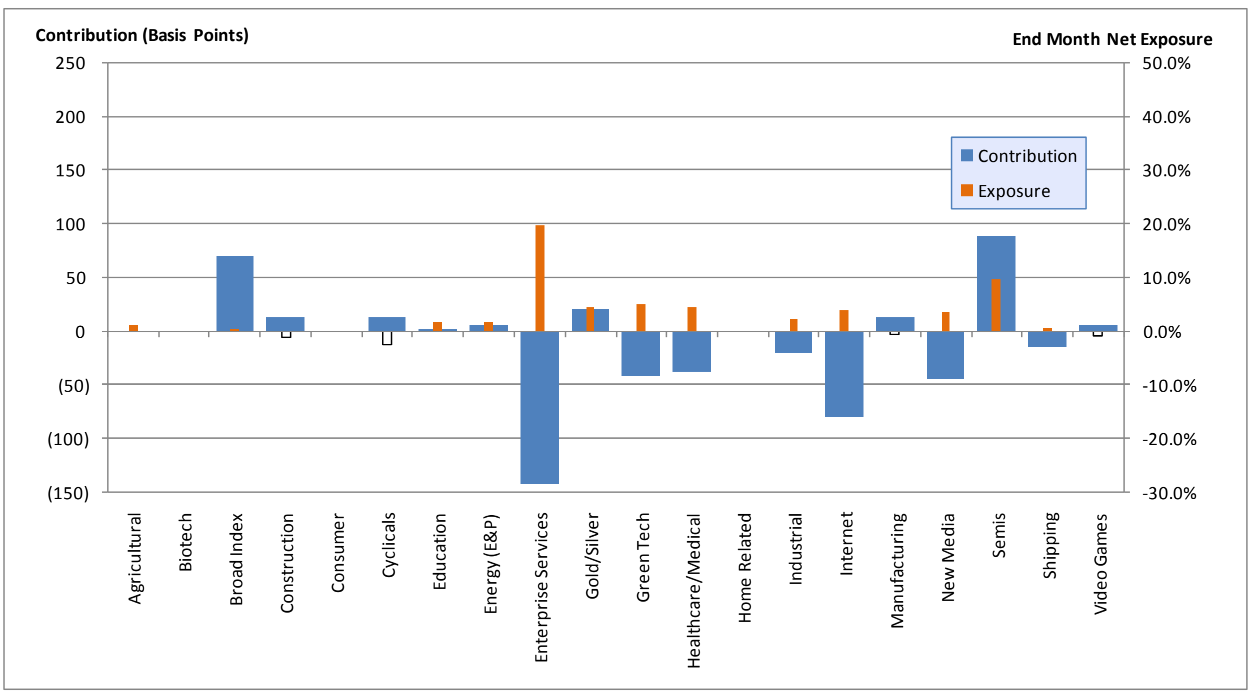
Kalo, LLC AUM ($M)	
LP Fund	$3.4
Separately Managed Accounts	$2.9
Total AUM EGRV Strategy	$6.3
Other SMA Strategies	$3.0
Total AUM	$9.3

Historical Performance (thru August 8, 2011)





Month Contribution and Exposure by Industry (July 2011)



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.

- **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 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. Steven is also a Registered Investment Adviser in the state of New Jersey.

* 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.

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.

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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