

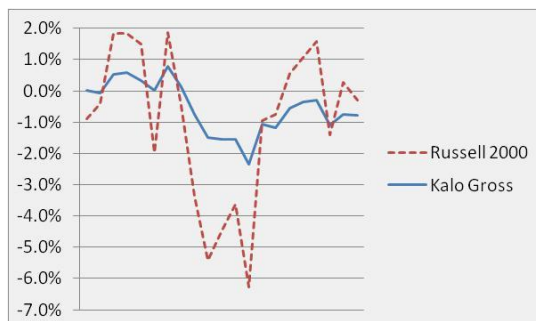
# KALO CAPITAL MANAGEMENT, LP

January 5, 2012

Dear Investor:

## December Review

For the month ended December 30, 2011, the Kalo Capital Management, LP fund depreciated 0.8% on a gross basis, versus gain of 0.5% for the Russell 2000 for the month. Similar to last month, Kalo did limited losses in the first half of the month when the Russell was falling fast, but did not rebound as strongly later in the month. The chart below shows the month-to-date performance comparison.



The Fund lost approximately 94 bps from long positions and gained 18 bps from short exposed positions. The biggest gains came from Coinstar (CSTR) and IntraLinks (IL). Losses were led by Gartner (IT) and RF Micro Devices (RFMD). I believe there was an abundance of tax-loss selling and continued trend away from some smaller cap growth companies.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	(94)	55%	-1.7%
Shorts	18	-23%	-0.8%
Russell 2000			0.5%

## My Expectations

For a few months now, smaller market cap growth companies have performed poorly in absolute and relative terms. Kalo invests a significant portion of its assets in this space. I continue to believe the individual company fundamentals will continue to grow and the stocks perform well in the future. For the time being, we seem stuck in a stock market where these smaller names are avoided and sold, and the larger, dividend paying type stocks are loved. It is difficult to know when the markets will recognize the value in these smaller names, but I remain confident that the value is there. As a result, I continue to keep exposure levels in the lower end of the normal range. As we start a new year though, I am hopeful that confidence builds in the Spring/Summer time period, which could lead to these stocks performing strongly. I will look for this confidence with hopes of building conviction and increasing exposure levels early on after a positive move begins.

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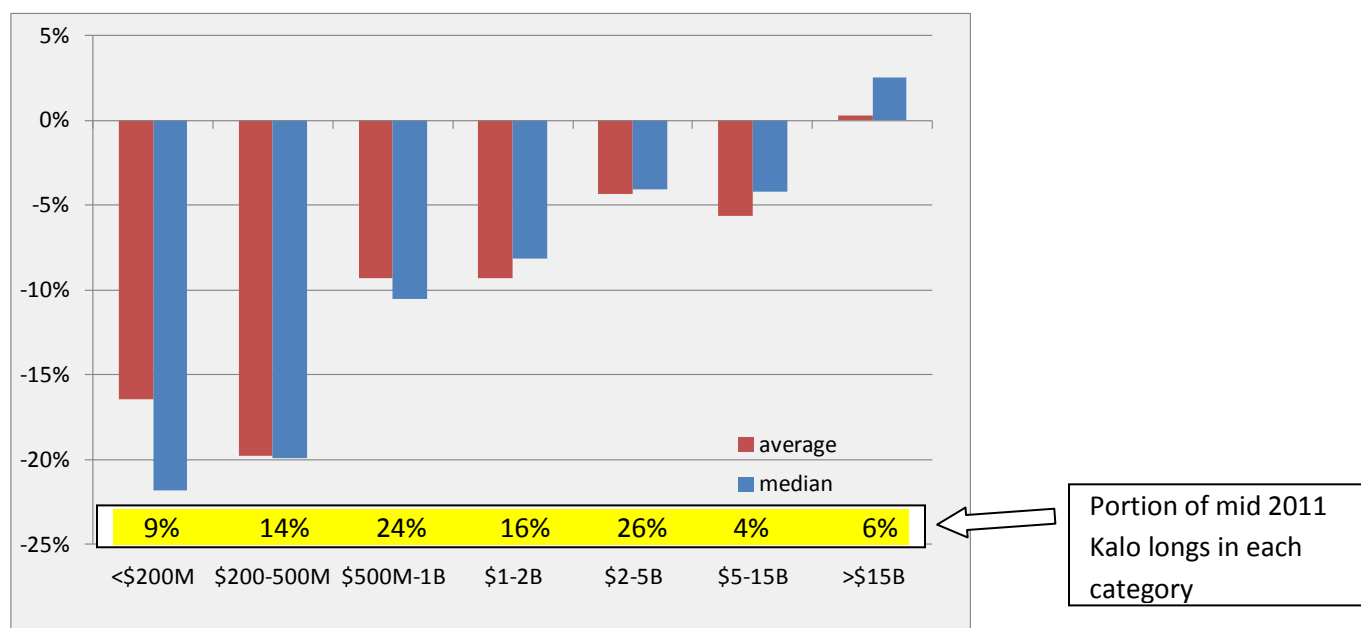
## 2011 Review

For the year ended December 30, 2011, the Kalo Capital Management, LP fund depreciated 8.6% on a gross basis, versus loss of 5.5% for the Russell 2000. The Fund lost approximately 1200 bps from long positions and gained 100 bps from short exposed positions. Losses were led by Digital River (DRIV) 230 bps, IntraLinks (IL) 178 bps and Cree (CREE) 150 bps (CREE). Gains were led by Mediamind (MDMD) 107 bps, Fuel-Tech (FTEK) 83 bps, and LivePerson (LPSN) 40 bps.

## Why Has 2011 Been So Difficult

While positions are focused on domestic growth companies, I have noticed a correlation to emerging market indices (such as EEM). I believe the EEM represents a 'risk-on' type mentality. In 2011, the stock market bounced back and forth with significant volatility, described by news broadcasters such as CNBC as the 'risk-on' and 'risk-off' trades. On a daily basis, the market would swing wildly pushing these risk-type positions up or down, with great correlation across the names. Over time I don't expect dramatic correlation between Kalo's long positions and the EEM, but in a trading market environment such as 2011, I do believe they had correlation. Taking this into consideration, and then viewing the monthly performance numbers for Kalo versus the EEM, it became apparent how difficult a year 2011 was for 'risk-on' type stocks. While The S&P 500 broke even in 2011, and the Russell 2000 was down roughly 5%, the EEM was down almost 20%!

The other similar phenomena that was apparent in 2011 was the starkly opposed performance in small cap names versus large cap names. I analyzed the 2600 names that trade in the U.S. in the consumer goods, industrial goods, services, and technology sectors (excludes utilities, basic materials, financials, and healthcare). I then broke down YTD performance based on the starting market cap for each stock. The chart below shows the average and median performance for each group. The biggest takeaway is that investors are flocking to larger cap names. And the smaller cap names are suffering. It is quite easy to see how difficult a year 2011 was for smaller cap investors. The yellow shaded box in chart shows the portion of Kalo's mid 2011 longs that were in each market cap category (based on year end market caps).



# KALO CAPITAL MANAGEMENT, LP

## Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Incep.
2010	<b>Gross</b>										2.0%	1.7%	4.6%	8.5%	8.5%
	<b>Net</b>										1.4%	1.3%	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%
	EEM										-0.2%	-2.9%	7.3%	3.9%	3.9%
	Russ Micro										2.2%	3.5%	9.5%	15.8%	15.8%
	Alpha										1.8%	-0.3%	1.3%	2.8%	2.8%
Beta (vs.R2000)										0.2%	2.0%	3.3%	5.5%	5.5%	
Net Exp										41%	57%	45%	48%	48%	
Gross Exp										52%	85%	98%	79%	79%	
2011	<b>Gross</b>	0.8%	0.3%	0.7%	1.2%	-2.4%	-0.1%	-1.5%	-2.5%	-4.9%	2.3%	-2.1%	-0.8%	-8.6%	-0.8%
	<b>Net</b>	0.5%	0.1%	0.4%	0.8%	-2.1%	-0.2%	-1.6%	-2.7%	-5.1%	2.2%	-2.3%	-1.0%	-10.6%	-4.8%
	Russ2000	-0.3%	5.4%	2.4%	2.1%	-1.5%	-2.5%	-3.7%	-8.8%	-11.4%	15.0%	-0.5%	0.5%	-5.5%	6.8%
	S&P500	2.3%	3.2%	-0.1%	2.6%	-1.1%	-1.8%	-2.1%	-5.7%	-7.2%	10.8%	-0.5%	0.9%	0.0%	7.9%
	EEM	-3.8%	0.0%	6.3%	2.7%	-2.9%	-0.9%	-1.0%	-9.3%	-18.7%	16.2%	-2.0%	-4.3%	-19.6%	-16.4%
	Russ Micro	-1.8%	5.4%	2.6%	1.6%	-2.1%	-3.1%	-2.7%	-11.3%	-11.2%	13.7%	-1.1%	1.4%	-10.6%	3.6%
	Alpha	1.0%	-1.4%	-0.1%	0.3%	-1.6%	1.1%	-0.4%	0.1%	-1.0%	-0.4%	-0.9%	-0.9%	-4.2%	-1.5%
Beta (vs.R2000)	-0.2%	1.8%	0.8%	0.8%	-0.8%	-1.1%	-1.0%	-2.6%	-3.9%	2.7%	-1.2%	0.1%	-4.8%	0.5%	
Net Exp	40%	39%	39%	40%	38%	31%	35%	28%	30%	29%	27%	32%	34%	37%	
Gross Exp	96%	88%	103%	111%	110%	110%	99%	97%	102%	90%	83%	78%	97%	93%	

\* 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 Capital Management, 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 before fees. 'Net' represents performance net of a 2% management fee and 20% performance fee. '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. 'Russ2000' represents the Russell 2000 index. 'EEM' is the MSCI Emerging Markets Index Fund. 'Russ Micro' is the IWC - Russell Microcap Index. 'Alpha' and 'Beta' represent the portion of monthly returns generated by net exposure to the market based on the Russell 2000 (beta), and the additional alpha return.

I also want to remind you that Kalo, LLC (the General Partner of Kalo Capital Management, LP) has changed its name to Kalo Capital Management, LLC.

I appreciate your continued support.

Sincerely,



Steven D. Friedman, CFA  
Founder and Chief Investment Officer

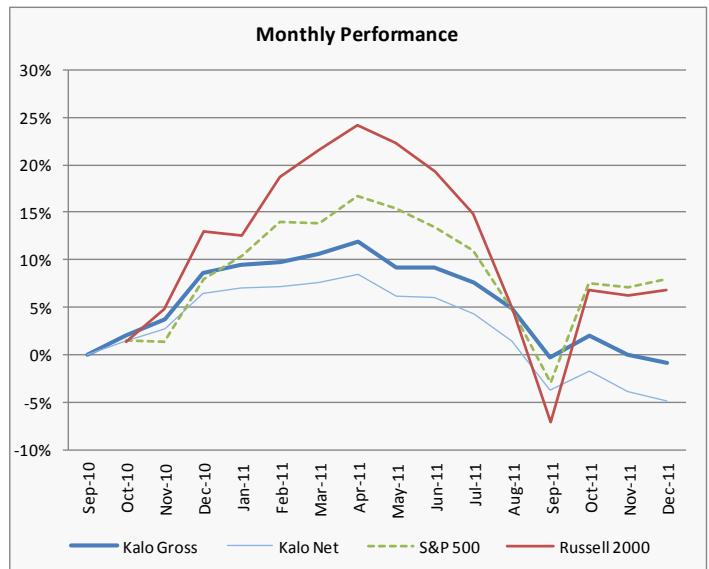
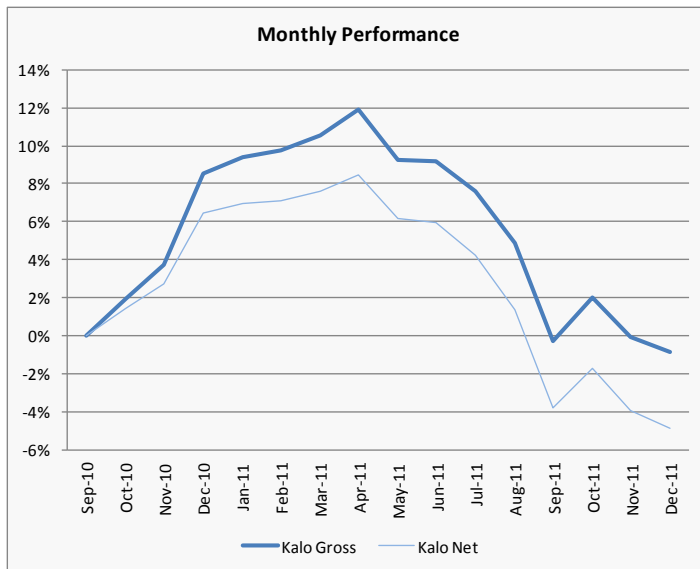
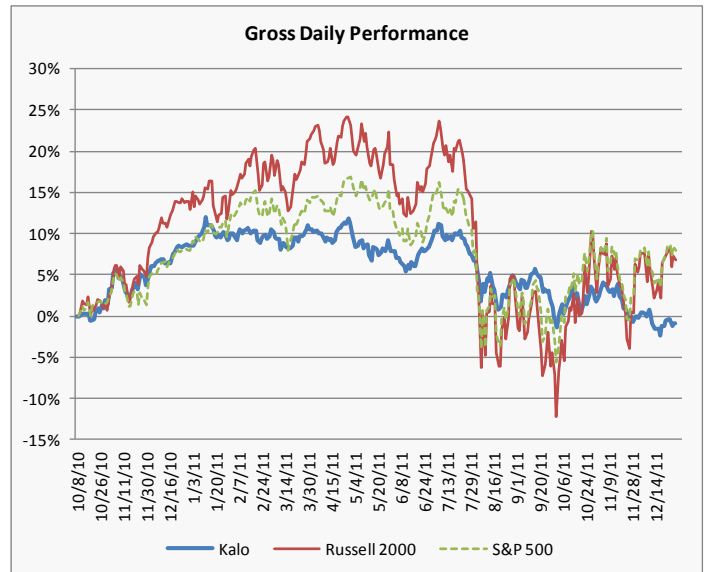
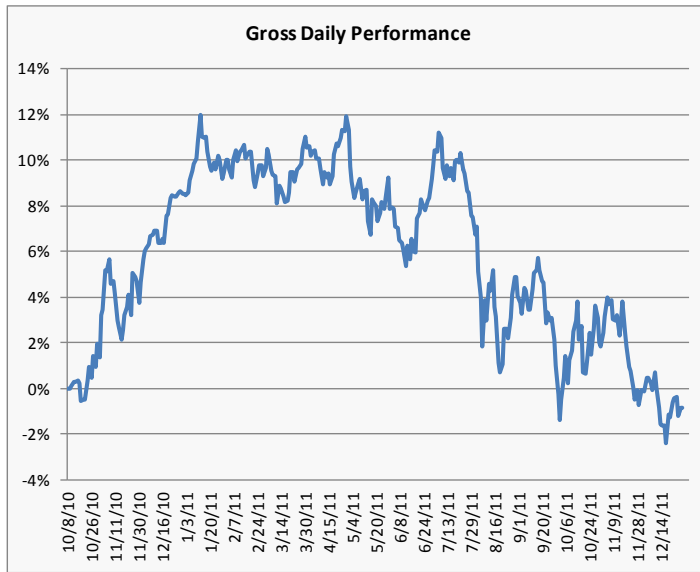
Please note that Kalo's expectations and strategy can change regularly and the views expressed here may change.

# KALO CAPITAL MANAGEMENT, LP

## Assets Under Management

Kalo, LLC AUM (\$M)	
LP Fund	\$3.1
Separately Managed Accounts	\$2.7
Total AUM EGRV Strategy	\$5.8
Other SMA Strategies	\$2.7
<b>Total AUM</b>	<b>\$8.5</b>

## Historical Performance



# KALO CAPITAL MANAGEMENT, LP

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## OVERVIEW OF KALO CAPITAL MANAGEMENT

### Background

Steven Friedman is the founder and Chief Investment Officer of Kalo Capital Management, 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 .

# KALO CAPITAL MANAGEMENT, LP

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- **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**

# KALO CAPITAL MANAGEMENT, LP

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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 Capital Management, LLC and Kalo Capital Management, LP. At Kalo, Steven directly manages client accounts and a hedge fund utilizing the Emerging Growth with Reduced Volatility ("EGRV") strategy he developed over the last decade. The EGRV strategy 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. Prior to founding Kalo in 2011, he spent ten years in the hedge fund industry as a Portfolio Manager and Senior Analyst, focused on the Emerging Growth space, initially as an analyst at Feirstein Capital Management, and subsequently as a Portfolio Manager in the Emerging Managers Program at Pequot Capital, and later as a Portfolio Manager and Partner at Manalapan Oracle Advisers. Prior to the hedge fund industry, Steven was an investment banker at Lazard Freres & Co, LLC. Steven has an MBA from Columbia University and BBA from the University of Michigan. He has been a CFA Charterholder since 2005 and is a Registered Investment Adviser in New Jersey.

# KALO CAPITAL MANAGEMENT, LP

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## 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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