

# KALO CAPITAL MANAGEMENT, LP

December 3, 2013

## Monthly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

For the month ended November 30, 2013, the Kalo Capital Management, LP fund gained approximately 1.5% on a gross basis (+1.1% net), versus a gain of 3.9% for the Russell 2000.

### Historical Performance - Emerging Growth with Reduced Volatility

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Incep.
2013	Gross	2.3%	2.7%	1.7%	1.3%	4.4%	3.1%	4.0%	1.1%	2.0%	1.8%	1.5%		29.2%	39.3%
	Net	2.2%	2.4%	1.3%	1.0%	3.5%	2.5%	3.2%	0.8%	1.6%	1.4%	1.1%		22.8%	26.1%
	Russ2000	6.2%	1.0%	4.4%	-0.4%	3.9%	-0.7%	6.9%	-3.3%	6.2%	2.5%	3.9%		34.6%	64.7%
	S&P500	5.0%	1.1%	3.6%	1.8%	2.1%	-1.5%	4.9%	-3.1%	3.0%	4.5%	2.8%		26.6%	55.0%
	EEM	-0.3%	-2.3%	-1.0%	1.2%	-4.8%	-5.3%	1.3%	-2.5%	7.2%	4.2%	-0.3%		-3.2%	-2.8%
	Russ Micro	6.0%	0.5%	5.4%	-0.1%	4.5%	0.7%	7.6%	-2.9%	6.8%	1.7%	6.0%		42.2%	77.5%
	Alpha	-0.8%	2.1%	-0.8%	1.8%	2.3%	3.4%	0.9%	2.6%	-0.2%	1.1%	-0.5%		12.6%	15.0%
	Beta (vs.R2000)	3.2%	0.5%	2.5%	-0.6%	2.0%	-0.3%	3.0%	-1.5%	2.2%	0.6%	2.0%		14.4%	21.7%
	Net Exp	54%	56%	55%	53%	48%	34%	52%	46%	36%	39%	52%		48%	41%
	Gross Long	80%	86%	79%	70%	67%	55%	65%	65%	53%	53%	68%		67%	66%

The Fund gained approximately 305 bps from long positions and lost 150 bps from short exposed positions. Gains were led by Monster Worldwide (MWW). Kalo had built up a good sized position in MWW as their business showed recent signs of stabilizing and management discussed cost savings measures being put into effect. The stock had become quite cheap and management expressed strong stock buyback measures being deployed as well. Kalo still owns this position, but it has been trimmed recently as it approached its highs from the past year.

Losses were led by Tremor Video (TRMR). Tremor is a recent IPO which offers video advertising services online. Unfortunately, due to shifts in the marketplace, their business had a setback which sent its stock falling over 50% upon their disappointing guidance on their earnings call. While this was our biggest long investment loss in the month, it only cost roughly 40 basis points in performance since the position was materially reduced ahead of the earnings report, as I recognized the downside risk and reduced exposure. More recently, the stock has stabilized and I have increased the position expecting it to bounce back somewhat (some of this bounce back has already taken place).

As can be seen on the chart below, our longs slightly outperformed the Russell 2000, but our shorts significantly outperformed, hurting Kalo, for the month. Much of this was driven by a couple of stocks that I believe are well ahead of themselves and the market is mispricing, which Kalo is still short.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	305	68%	4.5%
Shorts	(150)	-16%	9.1%
Russell 2000			3.9%

### Macro Commentary

November was filled with company earnings reports providing numerous data points on the economy. Overall, my view hasn't changed much.... things are continuing to gradually improve with optimism that this will continue in 2014, along with a hint of caution and uncertainty. The government shutdown, for the most part, seemed to have a small impact on the fundamentals of companies, mostly just creating a bit of uncertainty amongst buyers.

# KALO CAPITAL MANAGEMENT, LP

---

There continue to be numerous uncertainties that present risks, such as the Congressional budget negotiations, Iran nuclear discussions, Obamacare challenges, and fear of stimulus tapering. The public is supposed to be updated on the progress of Budget negotiations in early/mid December, however, I don't expect we'll learn too much at this point. The deadline is still not until February 2014. In addition, the U.S. seems to have made a temporary deal with Iran regarding their nuclear capabilities which seems to have removed the media's heightened focus on this, although it's not clear they've really made progress on nuclear non-proliferation in the Middle East. And Obamacare continues to have significant challenges, and I expect we will continue to see anecdotal nightmare stories for quite some time. But ultimately, I don't expect this to have a material impact on the overall stock market, at least in the near term (which I measure as at least several months). And regarding stimulus tapering, my expectation is this won't come until there are signs of inflation increasing.

Looking ahead, I don't expect significant negativity in December, and believe the market will continue its march upwards and experience a traditional Santa Claus rally at some point in the month. However, I don't believe it will move in a straight line up, and will likely experience setbacks along the way. Looking back at 2013, the markets have performed very well despite numerous concerns and worries..... something I think we may be able to say at the end of next year too, but we'll see.

## **How Macro Effects the Portfolio**

My exposure levels did increase to more typical levels in November, and I may look to increase more with hopes of benefitting from a Santa Claus rally. However, with stocks near their highs, I am sensitive to the potential of a pullback, and will plan to reduce exposure levels quickly upon weakness.

Please feel free to call to discuss anything. 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

## Historical Performance -Emerging Growth with Reduced Volatility

		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>										1.5%	1.3%	3.6%	6.5%	6.5%
	Russ2000										1.4%	3.4%	7.8%	12.9%	12.9%
	S&P500										1.6%	-0.2%	6.5%	7.9%	7.9%
	EEM										-0.3%	-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 Long										47%	71%	68%	62%	62%	
2011	<b>Gross</b>	<b>0.8%</b>	<b>0.3%</b>	<b>0.7%</b>	<b>1.2%</b>	<b>-2.4%</b>	<b>-0.1%</b>	<b>-1.6%</b>	<b>-2.6%</b>	<b>-4.9%</b>	<b>2.3%</b>	<b>-2.1%</b>	<b>-0.8%</b>	<b>-9.1%</b>	<b>-1.4%</b>
	<b>Net</b>	<b>0.5%</b>	<b>0.2%</b>	<b>0.4%</b>	<b>0.8%</b>	<b>-2.1%</b>	<b>-0.2%</b>	<b>-1.7%</b>	<b>-2.7%</b>	<b>-5.1%</b>	<b>2.1%</b>	<b>-2.2%</b>	<b>-1.0%</b>	<b>-10.5%</b>	<b>-4.7%</b>
	Russ2000	-0.3%	5.4%	2.4%	2.6%	-2.0%	-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%	2.8%	-1.4%	-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%	-1.0%	-1.0%	-9.2%	-17.9%	16.3%	-2.0%	-4.3%	-18.8%	-15.6%
	Russ Micro	-1.8%	5.4%	2.6%	1.6%	-2.1%	-3.1%	-2.7%	-10.6%	-11.2%	13.7%	-1.1%	1.4%	-9.9%	4.4%
Alpha	1.0%	-1.4%	-0.1%	0.1%	-1.4%	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%	1.0%	-1.0%	-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 Long	68%	65%	71%	75%	74%	71%	67%	63%	66%	60%	55%	55%	66%	65%	
2012	<b>Gross</b>	<b>5.3%</b>	<b>2.3%</b>	<b>0.8%</b>	<b>-2.5%</b>	<b>-2.8%</b>	<b>3.7%</b>	<b>-1.9%</b>	<b>3.6%</b>	<b>-0.2%</b>	<b>0.2%</b>	<b>0.4%</b>	<b>0.5%</b>	<b>9.4%</b>	<b>7.9%</b>
	<b>Net</b>	<b>5.1%</b>	<b>2.2%</b>	<b>0.7%</b>	<b>-2.6%</b>	<b>-3.0%</b>	<b>3.6%</b>	<b>-2.0%</b>	<b>3.5%</b>	<b>-0.3%</b>	<b>0.1%</b>	<b>0.3%</b>	<b>0.4%</b>	<b>7.7%</b>	<b>2.7%</b>
	Russ2000	7.0%	2.3%	2.4%	-1.6%	-6.7%	4.8%	-1.4%	3.2%	3.1%	-2.2%	0.4%	3.3%	14.6%	22.4%
	S&P500	4.4%	4.1%	3.1%	-0.7%	-6.3%	4.0%	1.3%	2.0%	2.4%	-2.0%	0.3%	0.7%	13.4%	22.4%
	EEM	11.0%	5.3%	-3.1%	-1.7%	-10.7%	5.0%	0.0%	0.4%	5.2%	-0.4%	1.6%	6.8%	19.0%	0.4%
	Russ Micro	8.7%	2.0%	4.1%	-1.7%	-6.6%	6.4%	-1.8%	2.7%	5.1%	-3.4%	0.2%	3.3%	19.5%	24.8%
Alpha	2.5%	1.4%	0.0%	-1.9%	0.1%	2.2%	-1.6%	2.6%	-1.5%	1.4%	-0.3%	-1.2%	3.6%	2.1%	
Beta (vs.R2000)	2.7%	0.9%	0.8%	-0.5%	-2.9%	1.4%	-0.3%	1.1%	1.3%	-1.1%	0.7%	1.7%	5.9%	6.3%	
Net Exp	44%	43%	40%	37%	39%	36%	35%	39%	43%	41%	45%	53%	41%	39%	
Gross Long	68%	71%	64%	55%	55%	57%	55%	59%	68%	72%	75%	83%	65%	65%	
2013	<b>Gross</b>	<b>2.3%</b>	<b>2.7%</b>	<b>1.7%</b>	<b>1.3%</b>	<b>4.4%</b>	<b>3.1%</b>	<b>4.0%</b>	<b>1.1%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>1.5%</b>		<b>29.1%</b>	<b>39.3%</b>
	<b>Net</b>	<b>2.2%</b>	<b>2.4%</b>	<b>1.3%</b>	<b>1.0%</b>	<b>3.5%</b>	<b>2.5%</b>	<b>3.2%</b>	<b>0.8%</b>	<b>1.6%</b>	<b>1.4%</b>	<b>1.2%</b>		<b>22.8%</b>	<b>26.1%</b>
	Russ2000	6.2%	1.0%	4.4%	-0.4%	3.9%	-0.7%	6.9%	-3.3%	6.2%	2.5%	3.9%		34.6%	64.7%
	S&P500	5.0%	1.1%	3.6%	1.8%	2.1%	-1.5%	4.9%	-3.1%	3.0%	4.5%	2.8%		26.6%	55.0%
	EEM	-0.3%	-2.3%	-1.0%	1.2%	-4.8%	-5.3%	1.3%	-2.5%	7.2%	4.2%	-0.3%		-3.2%	-2.8%
	Russ Micro	6.0%	0.5%	5.4%	-0.1%	4.5%	0.7%	7.6%	-2.9%	6.8%	1.7%	6.0%		42.2%	77.5%
Alpha	-0.8%	2.1%	-0.8%	1.8%	2.3%	3.4%	0.9%	2.6%	-0.2%	1.1%	-0.5%		12.6%	15.0%	
Beta (vs.R2000)	3.2%	0.5%	2.5%	-0.6%	2.0%	-0.3%	3.0%	-1.5%	2.2%	0.6%	2.0%		14.4%	21.7%	
Net Exp	54%	56%	55%	53%	48%	34%	52%	46%	36%	39%	52%		48%	41%	
Gross Long	80%	86%	79%	70%	67%	55%	65%	65%	53%	53%	68%		67%	66%	

\* Performance and other quantified metrics shown here are 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", where Net assumes a 1.5% management fee and 20% performance fee. 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 management and performance fees, but after expensing audit and administrator fees for the hedge fund. 'Net' represents performance net of a 1.5% 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.

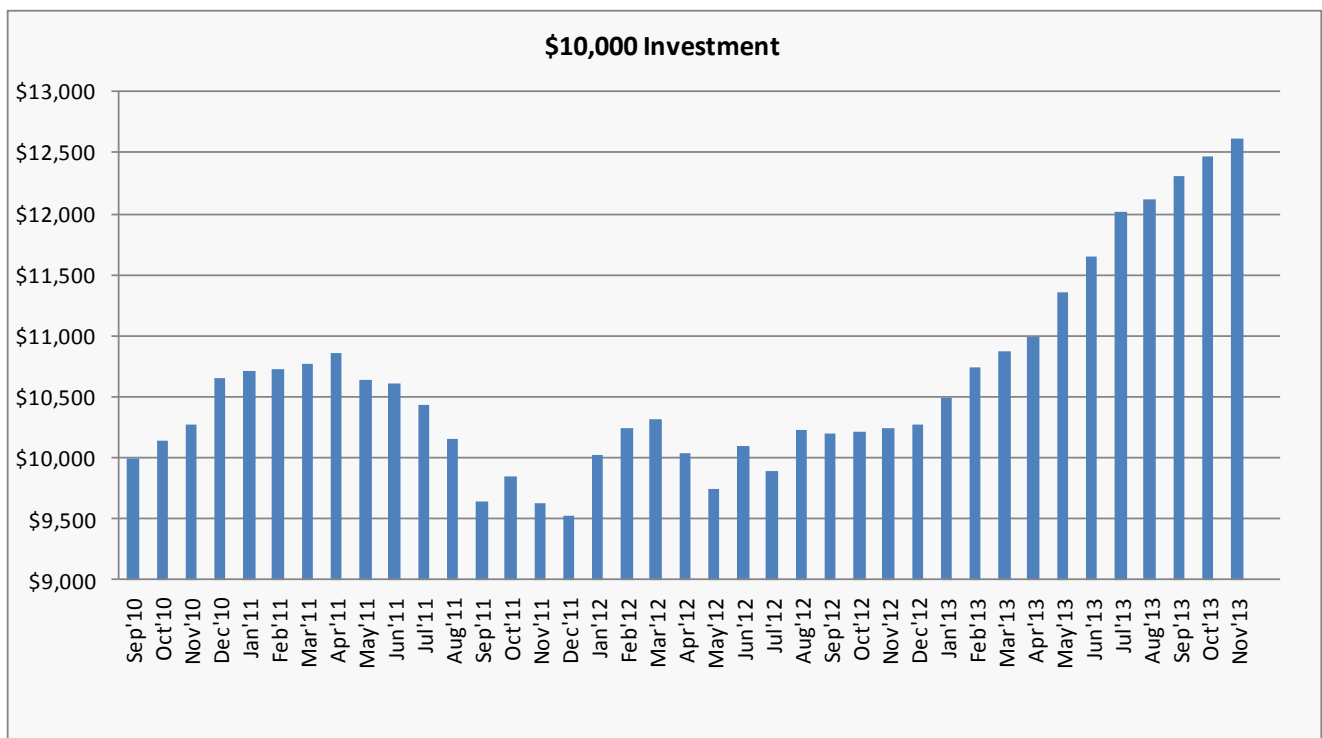
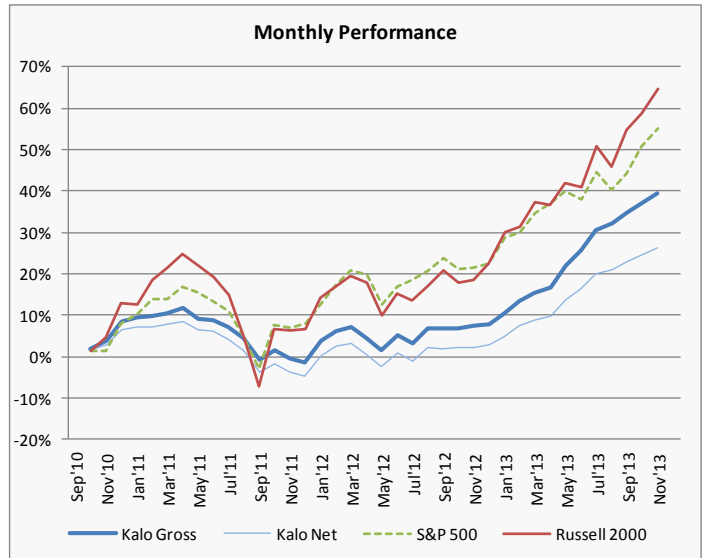
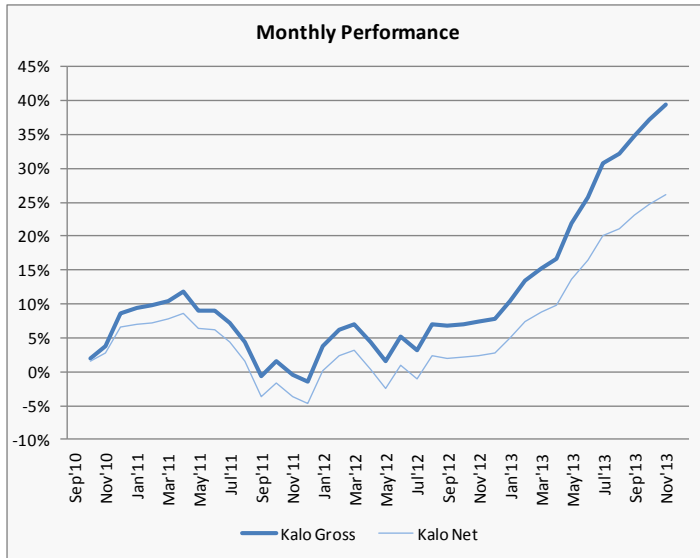
# KALO CAPITAL MANAGEMENT, LP

## Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM (\$M)	
LP Fund (EGRV)	\$4.4
Separately Managed Accounts (EGRV)	\$4.3
<b>Total AUM EGRV Strategy</b>	<b>\$8.7</b>

Note: Kalo Capital Management, LLC also manages separately managed accounts using a Global Growth Strategy and a Trading Strategy. These strategies sometimes invest in the same positions as those held by EGRV strategy (Emerging Growth with Reduced Volatility) used by the Kalo Capital Management, LP fund. The Fund utilizes several methods to ensure all accounts are treated equally.

## Historical Performance - Emerging Growth with Reduced Volatility



# KALO CAPITAL MANAGEMENT, LP

---

## 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 utilizes an Emerging Growth with Reduced Volatility ("EGRV") strategy, developed by the Chief Investment Officer 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. 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 opportunistically trade these and/or other stocks long and short that it believes are temporarily undervalued or overvalued. This trading overlay is intended to create additional alpha performance and help smooth returns. The Fund reduces portfolio volatility through a variety of means including: i) adhering to many investment criteria for positions to limit downside risk on an investment-specific and portfolio basis; and ii) combining the emerging growth investments with other less correlated long and short positions.

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.

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

# KALO CAPITAL MANAGEMENT, LP

---

the market overlooks. By establishing an investment before the market focuses on these outer years, I 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

# KALO CAPITAL MANAGEMENT, LP

---

## **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 identifies and invests in opportunistic trading opportunities. Positions are typically made in equities, where a positive catalyst is expected, or it can benefit from the following two philosophies: 1) purchasing stocks that are in the early stages of a larger move upward, driven by fundamental good news, or 2) purchasing stocks that have been excessively sold off after disappointment or bad news where the Fund expects some of the losses to be recovered. This same strategy is used for shorting stocks, under the opposite circumstances. The Fund strongly consider the fundamental and technical downside risk to positions, the liquidity, and sizes positions accordingly in order to limit potential losses. The Fund generally avoid holding positions entering a quarterly earnings report when significant bad news can hit the stock and not provide an opportunity to exit a position before making a significant move, unless the stock is at strong support levels and large losses are highly unlikely. The Fund will also look to exit individual positions that are causing losses, in order to limit our losses in any one name. These opportunistic investments tend to be of shorter duration than the fundamental emerging growth 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.

## **Risk Management**

The Fund uses a variety of methods to control risk. On an individual stock basis, the Fund sets a maximum position size, with lower limits for stocks that are more volatile and less liquid. The Fund will also utilize options to enter positions in cases of extreme short term volatility. The Fund utilizes soft stop loss controls to limit losses from money losing positions.

In addition to controlling risk on an individual stock basis, the Portfolio Manager further reduces volatility and downside risk through diversification and by running a balanced portfolio. The portfolio maintains a balance by spreading exposure across a wide breadth of geographies, industries, valuation levels, beta levels, and risk levels. The Portfolio Manager will also limit the Fund's aggregate exposure to investments that are more speculative and could have significant downside risks.

The Fund utilizes a variety of risk analyses created internally and in conjunction with the Prime Broker, and regularly monitors exposure levels in order to ensure portfolio downside risk stays at controlled levels.

# KALO CAPITAL MANAGEMENT, LP

---

## **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. Prior to founding Kalo in 2010, he spent ten years in the hedge fund industry as a Portfolio Manager and Senior Analyst, focused on the Emerging Growth space. Mr. Friedman 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 Management (2001-2006), and financial analyst at Lazard Frères & Co. (1996-1998). Steven is also an executive with Potomac Partners, LP, a family fund of funds within his family, and with ABF Enterprises Inc., the general partner of that fund of funds. Mr. Friedman earned a BBA from the University of Michigan (1996) and a MBA from Columbia Business School (2001). Steven has also been a CFA Charterholder since 2005 and is a Registered Investment Adviser in New Jersey.

## **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.

This document is produced solely for the specified recipient. Furthermore by accepting this information, you agree not to transmit, reproduce or make available to any other person all or any part of this information.