June 6, 2015

Monthly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

For the month ended May 31, 2015, the Kalo Capital Management, LP fund gained approximately 1.4% net, versus a gain of 2.2% for the Russell 2000.

	May 2015	YTD
Kalo Capital Mangement, LP	1.4%	2.8%
Russell 2000	2.2%	3.5%
S&P 500	1.0%	2.4%

May Performance Commentary

For the month of May, the Fund gained approximately 288 gross bps from long positions and lost 94 gross bps from short exposed positions. Gains were led by a few previously neglected companies: GeekNet (GKNT), eGain (EGAN), and BorderFree (BRDR). Losses were led by Numerex (NMRX), Control4 (CTRL), and some index related hedges.

Geeknet (GKNT): GKNT runs the thinkgeek.com website, an ecommerce site that sells unique, 'geeky' merchandise (think Star Wars, Star Trek, Minecraft, etc.). While not particularly exciting, the stock had been hammered to extremely low levels throughout 2014. We established a position due to our belief of its strong risk/reward opportunity, with very little downside risk. Earlier in the year, the stock was trading barely above cash levels, despite having almost no cash burn and a significant cash balance, and meaningful historic NOLs (to offset future taxes). Further, management had plans to improve the margins in the business, and are likely to benefit from the upcoming release of new Star Wars films. We established the bulk of our position in December 2014 slightly under $8 (note, we viewed $8 as a pessimistic downside scenario price, and had difficulty imagining it going below these levels in the next year). Despite the excellent risk/reward, we kept the size of the position under 1.5% as we typically do for smaller, less liquid stocks. In May, the stock was acquired for $20 by Gamestop (a slight discount to our optimistic target, but a significant premium to our average cost).

eGain (EGAN): EGAN is an enterprise service that helps its enterprise customers offer Customer Service solutions. For the last several quarters, EGAN has disappointed investors and its stock price has suffered (falling from as high as $12 down to $3). Clearly neglected and forgotten about, our attention was drawn as the valuation became extremely low. Upon further due diligence, we became comfortable that recent small losses were coming to an end and the company would return to profitability, that cash balances were sufficient to grow the business for the foreseeable future, and traction was building in the sales process and revenues could be expected to continue growing, with impressive operating leverage. All combined, an excellent risk/reward opportunity with extremely little downside risk. In fact our pessimistic price target was $3, while our base and optimistic price targets are $6 and $13, respectively. Despite having losses on a small investment position established earlier in 2014, we substantially grew our position at prices near $3 as we learned more about the business, spoke with management, and gained conviction on the limited downside risk. As often happens with neglected names, once some investors gain interest in the company, the stock can show significant gains, quickly. Recently this has happened with EGAN, and the stock has risen from the low $3's, to near $5. We still believe there remains significant upside potential, but have slightly trimmed our position.

As can be seen on the chart below, the Fund's longs outperformed vs. the Russell 2000, gaining 3.3% on average vs. the Russell's 2.7% gain. While, the shorts performed similar to the Russell on average, gaining 2.1%, hurting performance. This combination resulted in +1.1% of total gross alpha generation during the month.

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	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	288	88%	3.3%
Shorts	(94)	-44%	2.1%
Russell 2000			2.2%

Alpha (Gross performance from stock selection)	1.1%
Beta (Gross performance from exposure)	0.8%

Big Picture Market Commentary

In a few specific circumstances, we are seeing inexpensive, neglected names show recently strong stock performance. This is still far from being a widespread phenomena, but this may mark the beginning of more positive trend for these out-of-favor names. The big driver has been individual acquisitions or private equity interest, which contributed to our performance this month.

Looking more broadly at the stock market, we continue to feel that the major indices have little room to advance, as they remain very close to their recent highs. However, much of the individual smaller cap stocks are still far from their highs and seem to have significant upside potential if they come back in favor. At the same time, we are concerned about the risk the Greek debt crisis poses to the stock market. You may recall back in 2011, when these same concerns about Greece and potential effects on the rest of the European Union caused a dramatic correction in the stock market. In a short 3 week span from mid-July to early August, the Russell 2000 fell over 20%. Back then, Greece eventually agreed to a deal with European creditors and the panic subsided. However, four years later we are back here again as Greece is close to running out of money again. Much is unknown whether Greece will strike a new deal with creditors, or instead default and exit the Euro currency, and the potential fallout from this. Our view is that a Greek exit from the Euro (Grexit) could hurt the stock market in the near term, but would not set off a global slowdown as some worry. Nonetheless, we are concerned and have recently lowered some of our gross and net exposure levels, and added out-of-the-money put options for protection in case the market sees a significant correction.

Recent Stock Idea

We also wanted to discuss our excitement around Plug Power (PLUG). PLUG sells fuel cell battery systems used in material handling forklifts for commercial customers. Customers with scale see several operating benefits when they upgrade to PLUG systems that make a positive financial impact to the business. For example, a typical non-PLUG customer needs 6-7% of additional square footage in a warehouse lined with extra batteries, sees significant voltage drop-offs as batteries run low, slowing forklift performance, requires 20 minutes to change to backup battery when depleted, further hurting efficiency. PLUG systems require negligible square footage in a warehouse for battery charging, no voltage drop-offs and thus consistent performance, and only 2 to 3 minutes of time to refuel with liquid hydrogen.

We have had a small position in PLUG for quite some time, and have been following the name for years. More recently, we have increased our position as the company demonstrates significant traction in its business. PLUG's stock has had a long history of over-promising and under-delivering, and is frequently still labeled as such by the investor community. However, we believe the current PLUG is different. After hiring a new CEO in 2008, I avoided the stock for the most part. But, the turning point in our minds was clearly when they signed Walmart as a customer in 2014, and then after utilizing the systems, Walmart announced they would roll it out

to all their distribution centers. More recently PLUG has announced deals with Home Depot, a large footwear company (we believe to be Nike), and many others. From our point of view, PLUG has clearly turned a corner and this once speculative product has now entered prime-time. PLUG also has a scalable business model that has significant operating leverage and economies of scale. Despite this news flow, the stock is mired at its lows from the last two years. In addition to our comfort in the impressive customer list, they have solid bookings and pipeline extending over the next couple of years, a clean balance sheet with significant cash and no debt, and are about to enter the ramp period in their sales growth in the June quarter. Part of the reason for the weak stock levels we believe is due to the weaker sales level reported in the March quarter. We believe this is a situation where many investors get overly concerned about the ebbs and flows of quarterly reporting and miss the big picture: Large customers have already signed up and the roll out is happening now.

We maintain our belief that the fundamental growth of our investments will result in significant stock gains over time. We thank you once again for your belief in our process and performance.

Please feel free to call to discuss anything.

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.

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KALO CAPITAL MANAGEMENT, LP

Historical Kalo Performance - Emerging Growth with Reduced Volatility *

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Incep.
2010										1.5%	1.3%	3.6%	**6.5%**	**14.1%**
2011	0.5%	0.2%	0.4%	0.8%	-2.1%	-0.2%	-1.7%	-2.7%	-5.1%	2.1%	-2.2%	-1.0%	**-10.5%**	**2.1%**
2012	5.1%	2.2%	0.7%	-2.6%	-3.0%	3.6%	-2.0%	3.5%	-0.3%	0.1%	0.3%	0.4%	**7.7%**	**10.0%**
2013	2.2%	2.4%	1.3%	1.0%	3.5%	2.5%	3.2%	0.8%	1.6%	1.4%	1.2%	2.7%	**26.2%**	**38.8%**
2014	2.0%	5.0%	1.7%	-1.4%	1.2%	2.3%	-2.0%	0.1%	-1.6%	0.5%	-2.6%	2.2%	**7.7%**	**49.5%**
2015	-5.3%	4.9%	1.1%	0.8%	1.4%								**2.8%**	**53.7%**

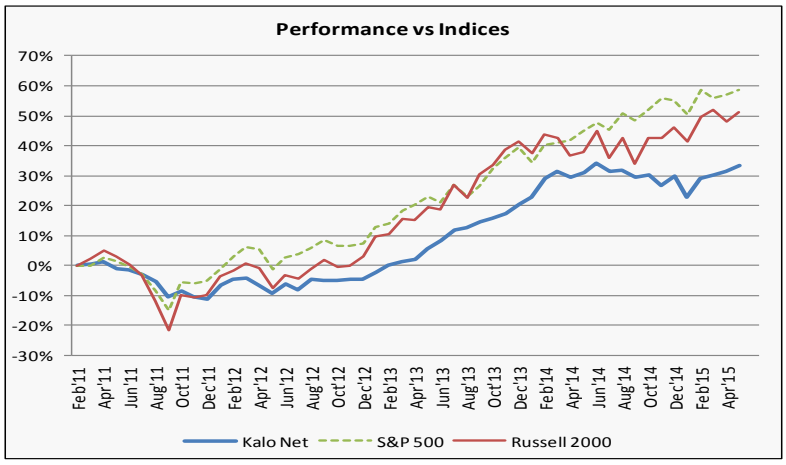
NOTE: The above returns are net of fees. Past performance is not a guarantee of future returns. Annual performance is thru December 31 of each year. Returns since inception represent the return since the Fund inception March 1, 2011.

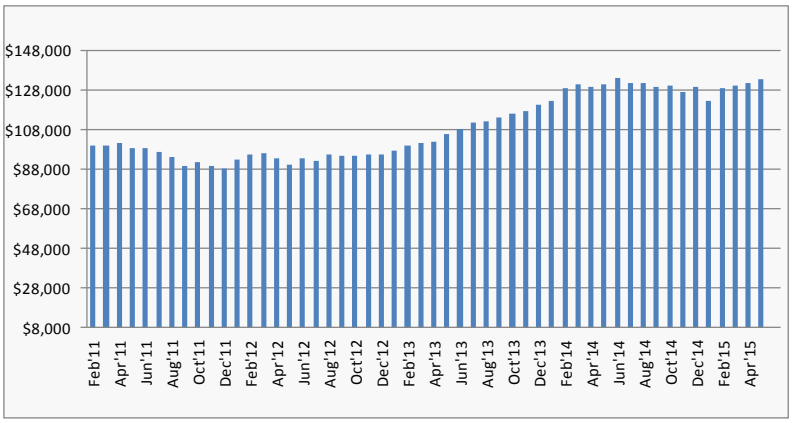
Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM ($M)	
LP Fund (EGRV)	$5.9
Separately Managed Accounts (EGRV)	$5.0
Total AUM EGRV Strategy	$10.9

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





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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 utilizes an Emerging Growth with Reduced Volatility ("EGRV") strategy, developed by the Chief Investment Officer over the last decade. The EGRV strategy invests the bulk of capital in emerging growth equities with promising risk/reward characteristics based on fundamental analysis. These companies are often associated with large open-ended growth opportunities, disruptive technologies, disruptive business models, or changing industry dynamics along with powerful business models driven by significant operating leverage. Kalo looks to generate further alpha and hedge performance with company-specific and general market short positions. In addition, Kalo will execute short term trades in situations where we identify significant news/stock action that we expect to drive near term stock moves. This Trading Overlay is intended to further enhance alpha performance. 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 helps enable 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

the market overlooks. By establishing an investment before the market focuses on these outer years, 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 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: i) purchasing stocks that are in the early stages of a larger move upward, driven by fundamental good news; or ii) purchasing stocks that have been excessively sold off after disappointing 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 considers the fundamental and technical downside risk to its positions, the liquidity, and sizes positions accordingly in order to limit potential losses. The Fund generally avoids holding positions entering a quarterly earnings report when significant bad news may hit the stock and not provide an opportunity to exit a position before the stock makes a significant move, unless the Fund believes that 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 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 better control portfolio 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 in order 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 and regularly monitors exposure levels in order to ensure portfolio downside risk stays at controlled levels.

Investment Team

Steven D. Friedman, CFA

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), a Proprietary Trader * (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). 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.

* The proprietary trading desk was part of the Market-Making business at Bernard L. Madoff Investment Securities LLC, separate from the fraudulent investment management business. Federal prosecutors have stated the proprietary trading arm of the firm was legitimate. (Reuters Article, "Market-Making Arm of Madoff's Firm to Be Sold Off", 3/27/09).

Tony Alaimo, CFA

Tony Alaimo is an analyst at Kalo Capital Management. Prior to joining Kalo in 2014, he spent 7 years as an equity research analyst at Axiom International Investors, a $12 billion dollar global equity manager. He has experience as a global equity generalist and financial services specialist. Tony graduated from Sacred Heart University (2006) with Bachelor of Arts degrees in Finance and Economics. He has been a CFA Charterholder since 2011.

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