June 8, 2016

Monthly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

For the month ended May 31, 2016, the Kalo Capital Management, LP fund lost 2.6% net, versus a gain of 2.1% for the Russell 2000.

	May 2016	YTD
Kalo Capital Mangement, LP	-2.6%	-3.2%
Russell 2000	2.1%	1.7%
S&P 500	1.5%	2.6%

Market Update

The market continues to shrug off many of the fears we have previously mentioned and has been acting remarkably stable the last couple of weeks. Global economic fears seem to have subsided in the media, and the tone of the market is continuing to improve from the damage it suffered in the first month of 2016. While the Russell 2000 was down most of the month (about 3% at its worst), it rallied strongly toward the end of the month to finish with a 2% gain. Much of the improving tone, we believe, was driven by belief that the Federal Reserve will once again delay its next rate hike. However, we also do feel that some economic data has also shown some stabilizing to improving trends, albeit mixed with some data that continues to be sluggish to negative. Large cap stocks are now trading near all-time highs, while the smaller cap stocks are still in the early innings of their comeback (Russell 2000 still down 10% from the highs seen mid-year 2015). There is undoubtedly more complacency in the market and the volatility index has collapsed back to historic low levels. We believe that this complacency will remain for the near future, and expect large cap stocks to move only small amounts, while smaller cap names play 'catch-up' and rise more materially….. a scenario that we would expect will be a wind at the back of Kalo's portfolio performance.

The quarterly earnings reports have finished and we remain very excited for current and future prospects of our current holdings. Further, the stock prices of many longs in our portfolio remain depressed and the recent calmness in the market may bring buyers back into some of our forgotten stocks. Similar to last month, we have been increasing position sizes in current long holdings and establishing new positions in companies with businesses we are excited about. We have continued to raise our gross long exposure and net exposure levels (now remains close to typical levels).

Despite the complacency, there are still many warning signs that may be foreshadowing trouble ahead at some point: in recent months two of the largest brokerages have downgraded equities (JPMorgan, Goldman Sachs) and at the start of June, the largest global asset manager, Blackrock, downgraded global equities to neutral. The economic data appears to have gotten slightly better in recent months but remains choppy. Market wide volumes remain low. Oil prices have recovered which can be seen as both positive and negative from a market point of view. Most importantly, global central banks continue to keep interest rates at near-record lows without providing any clear path on normalization which continues to encourage risk taking for additional yield.

In general, our attitude has improved and we have been increasing our exposure levels, but only so far, as we still remain focused on capital protection and still have significant concerns.

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May Performance

In the month of May, the Fund experienced losses from longs and shorts. The Fund lost approximately 110 gross bps from long positions and lost 130 gross bps from short exposed positions. As can be seen on the chart below, the Fund's longs underperformed the Russell 2000, losing 1.8% on average vs. the Russell's 2.1% gain. The shorts performed better than the index, gaining 5.5% and hurting performance.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	(110)	63%	-1.8%
Shorts	(130)	-24%	5.5%
Russell 2000			2.1%
Alpha (Gross performance from stock selection)			-3.4%
Beta (Gross performance from exposure)			1.0%

Our gains were led by holdings in Liveperson (LPSN), MeetMe (MEET), and Acacia (ACTG). Losses were led by ZAGG (ZAGG), Hydrogenics (HYGS) and bearish ETF hedges.

ZAGG was a large part of our monthly losses. The company makes smartphone accessories (screen protectors, keyboards, etc…) and, we believe, has been unfairly punished due to investor concern about future Apple iPhone sales and performance of a recent acquisition. We are still comfortable with our long position as the company has very solid fundamentals and cash flow generation despite these concerns and has a very low valuation. We remain shareholders and have our increased our holding at these lower prices.

Why did we underperform?

We also wanted to highlight the phenomena we are seeing recently, in which large cap stocks have remained in favor and moved near their highs across many sectors and stocks, however many small cap names remain depressed. We often find this scenario when investors are just starting to regain comfort in the stock market. However, in these early stages of regained investor comfort, smaller cap stocks often languish at low levels, which can limit long position gains across some of Kalo's portfolio. As investor comfort gains conviction, it is common for investors to once again invest in smaller market cap stocks, which can lead to quick and material stock price gains for these names. Historically, this second stage of investor comfort often results in outperformance across Kalo's portfolio, but notably with a lag compared to the stock indices. We believe this lagging effect is the core reason for our underperformance year-to-date.

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.

Historical Kalo Performance - Emerging Growth with Reduced Volatility *

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Incep.
2011			0.4%	0.8%	-2.2%	-0.2%	-1.7%	-2.7%	-5.1%	2.1%	-2.2%	-0.9%	**-11.3%**	**-11.3%**
2012	5.1%	2.2%	0.7%	-2.6%	-2.9%	3.6%	-2.0%	3.5%	-0.3%	0.1%	0.3%	0.3%	**7.7%**	**-4.4%**
2013	2.2%	2.5%	1.2%	0.9%	3.4%	2.4%	3.2%	0.8%	1.6%	1.4%	1.1%	2.7%	**26.0%**	**20.5%**
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%**	**29.8%**
2015	-5.3%	4.9%	1.1%	0.8%	1.4%	-1.8%	-4.3%	-2.2%	-2.5%	8.5%	4.6%	0.8%	**5.3%**	**36.7%**
2016	-5.1%	2.4%	0.5%	1.7%	-2.6%								**-3.2%**	**32.3%**

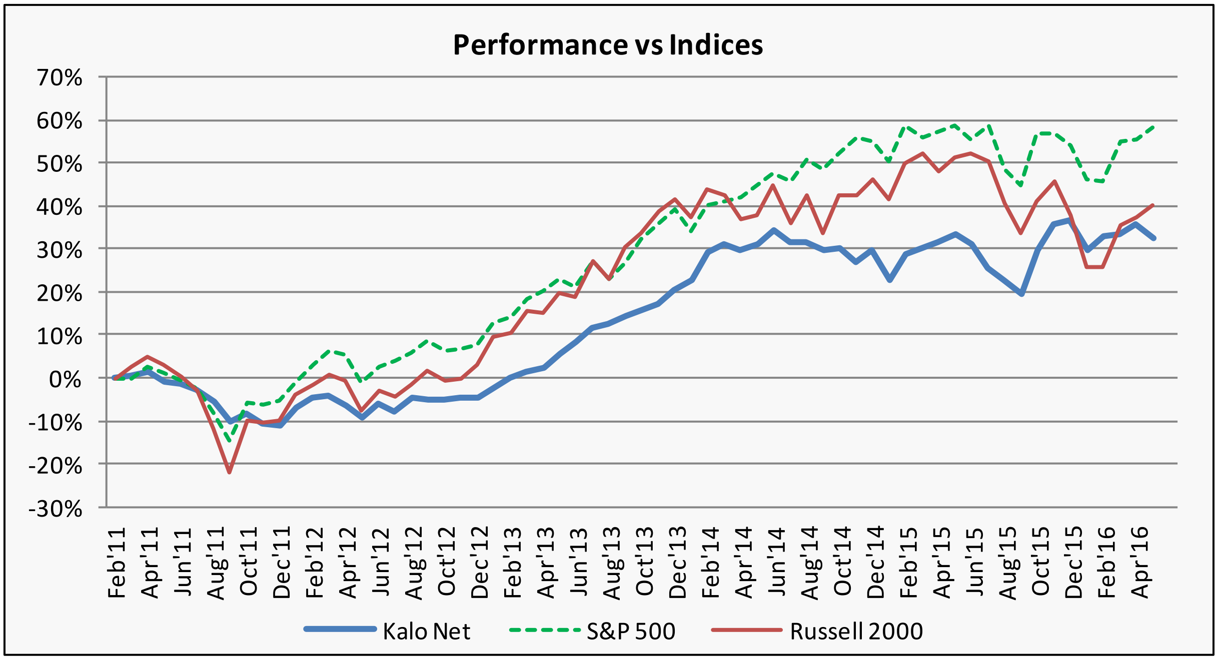
NOTE: The above returns are net of fees. Past performance is not a guarantee of future returns. Annual performance is through December 31 of each year. Returns since inception represent the return since the Fund inception March 1, 2011.

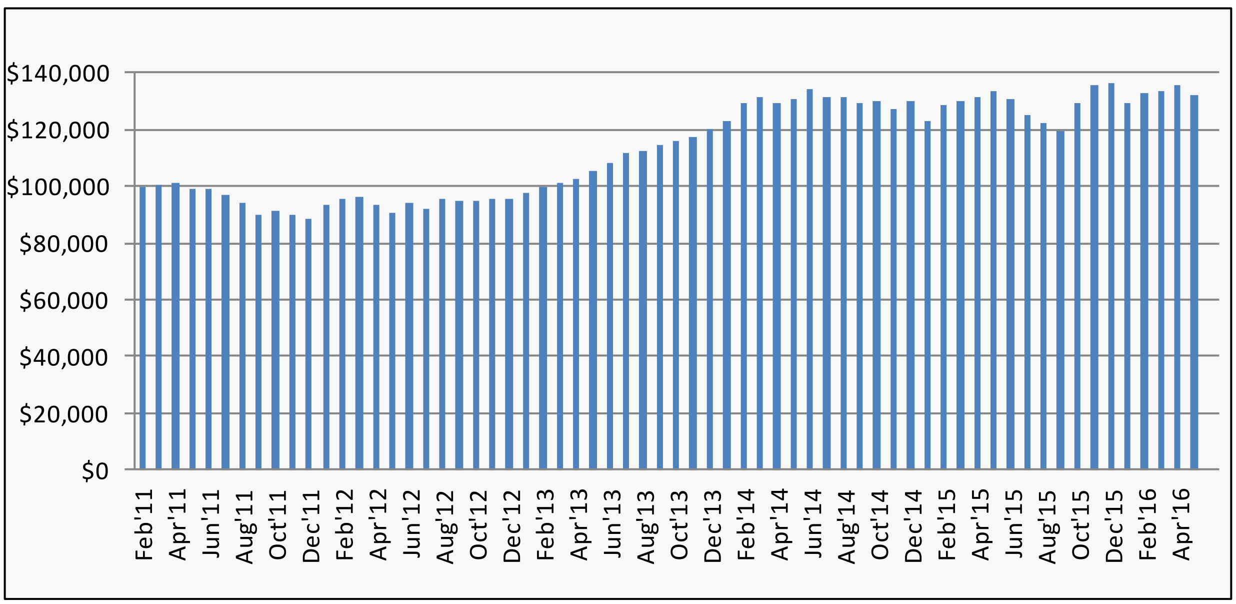
Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM ($M)	
LP Fund (EGRV)	$6.2
Separately Managed Accounts (EGRV)	$5.2
Total AUM EGRV Strategy	$11.4

Note: Kalo Capital Management, LLC also manages separately managed accounts for clients using alternative strategies which 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





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.

<u>Investments</u>

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.

<u>Investment Team</u>

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 seven 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.

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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