

KALO CAPITAL MANAGEMENT, LP

November 7, 2016

Monthly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

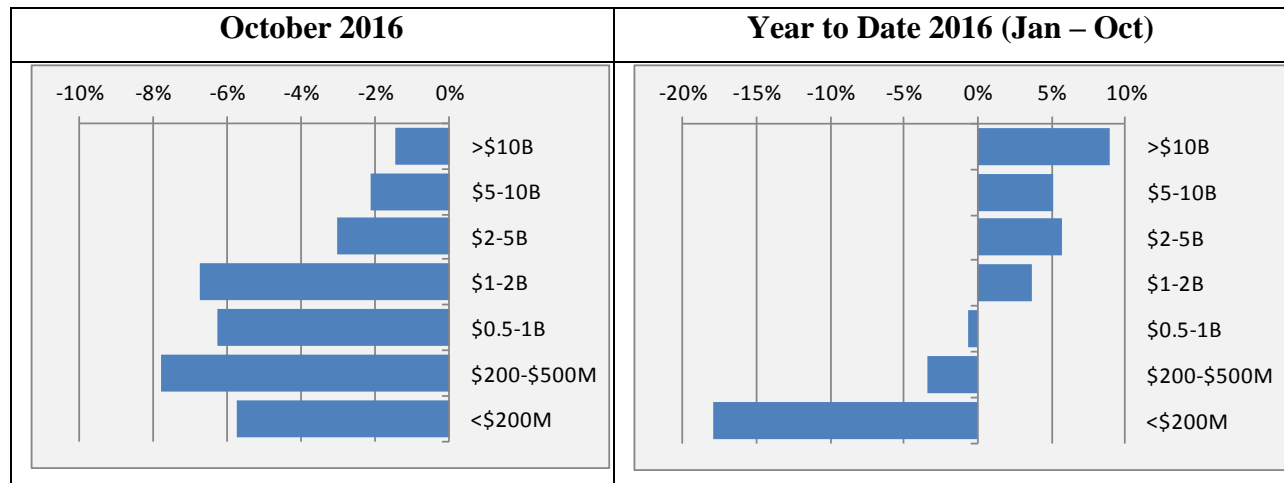
For the month ended October 31, 2016, the Kalo Capital Management, LP fund lost 3.7% net, versus a loss of 4.8% for the Russell 2000.

	Oct 2016	YTD
Kalo Capital Mangement, LP	-3.7%	2.6%
Russell 2000	-4.8%	4.9%
S&P 500	-1.9%	4.0%

Market Update

Smaller cap stocks suffered significant falls throughout October, likely due to heightened worries and concerns about the upcoming Presidential election. Further, the magnitude of impact to smaller cap stocks was much more severe than larger cap stocks. Investors continue to seek out “safe” securities to park their capital. Given concerns about interest rates rising, bonds are not as appealing, and thus many investors seek solace in the S&P 500 larger cap stocks, helping to support the index. However, our view is that these names have little upside and lack fundamental-based risk/reward trade-off.

Looking across our universe of 900 stocks in the chart analysis below, you can see how exaggerated the stock falls have been for the smaller cap stocks. In the month of October, while the S&P 500 was down only 1.8%, similar to stocks over \$10 billion, those with market caps of \$200 million to \$2 billion were down in the 6% to 8% range. Looking at the year to date numbers shows the difference to be even more striking.... With large cap stocks up 9%, while smaller market caps range from -3% to + 3%.



As we have discussed in the past, when the market suffers a sell-off, our stocks can also sell off in the early innings of a move down (as many have in October). This can result in unimpressive relative performance in the early innings of a market drawdown, followed by relative outperformance in the middle to later innings. The reasoning for this can be explained by what we believe are the following characteristics:

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Longs: Many of our longs are underfollowed and unloved. When incremental investors look to sell and lighten market exposure, there can be a lack of investors wanting to take the opposite side of the sale, leading to a larger percentage fall in the stock. This can occur until investors feel comfortable with their general market exposure levels, and then these names will often rebound as investors are attracted to their now significantly discounted price and fundamental or valuation based support levels.

Shorts: Many of our shorts are heavily promoted by sell side analysts and are “loved” stocks, despite their high valuations. Given this strong support, these stocks often don’t fall as far due to market driven sell-offs.

A case in point is MindBody (MB), one of our investment long positions. Over the first half of October, when smaller market cap names such as this were selling off, MB fell roughly 15%. Then MB reported its quarterly earnings, which updated investors on business, which continued to demonstrate strong traction and growth. The stock then proceeded to regain all its losses from earlier in the month. This type of stock action can be common in the current market environment. Many of our long positions have not yet reported earnings.

We are disappointed in the recent underperformance. In retrospect, our exposure to some of the smaller market cap stocks in the longer-term focused Investment part of the portfolio, was too high. We do believe these stocks still represent a good risk vs. return opportunity and will rebound in time. We also have been surprised at the severity of the fall some have had, which we believe was exaggerated given the nature of the current environment. As we have discussed, we believe the environment is less healthy than it appears when looking at the broader market indices.

Economy

We are also in the middle stages of earnings season. So far we have seen some indicators that the economy could be slowing, and in turn have been growing our short exposure. We currently have our long exposure at slightly below typical levels. This is made up of typical exposure for our longer-term focused Investments (as we feel many of the stocks are at depressed levels), combined with very low exposure in the shorter-term focused Trading portfolio, which has been mostly liquidated.

Looking ahead, we are very concerned about the market environment. The general consensus view is that the stock market will fall with a Trump victory, and rise with a Clinton victory. This view has played out among the larger cap names with shifts in the polls in recent weeks. However, even with a Clinton victory, we are concerned about the market. While we do believe it would get a short term boost, we think it could be short-lived. And then there is always the possibility of the results being contested and the process being further drawn out creating confusion in the markets and the country.

In aggregate we believe the levels of uncertainty in the market is extremely high. We have trimmed gross exposure levels and will be on the lookout for signs of stability before increasing levels.

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October Performance

In the month of October, the Fund lost roughly 672 gross bps from long positions and gained 234 gross bps from short exposed positions. As can be seen on the chart below, the Fund's longs underperformed the Russell 2000, losing 9.2% on average vs. the Russell's 4.8% loss. The shorts performed inline with the index. This combined for roughly 3.1% of gross alpha loss. Year to date on a gross basis, longs have gained roughly 350 bps, shorts 100 bps, for a gross alpha generation of 5.5%.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	(672)	73%	-9.2%
Shorts	234	-49%	-4.8%
Russell 2000			-4.8%

Alpha (Gross performance from stock selection)	-3.1%
Beta (Gross performance from exposure)	-1.3%

Our gains were led by two short positions (a restaurant, and overly promoted recent IPO). Losses were led by Energy Recovery (ERII) and Zagg (ZAGG).

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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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%	0.4%	4.3%	1.5%	3.5%	-3.7%			2.6%	40.2%

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.

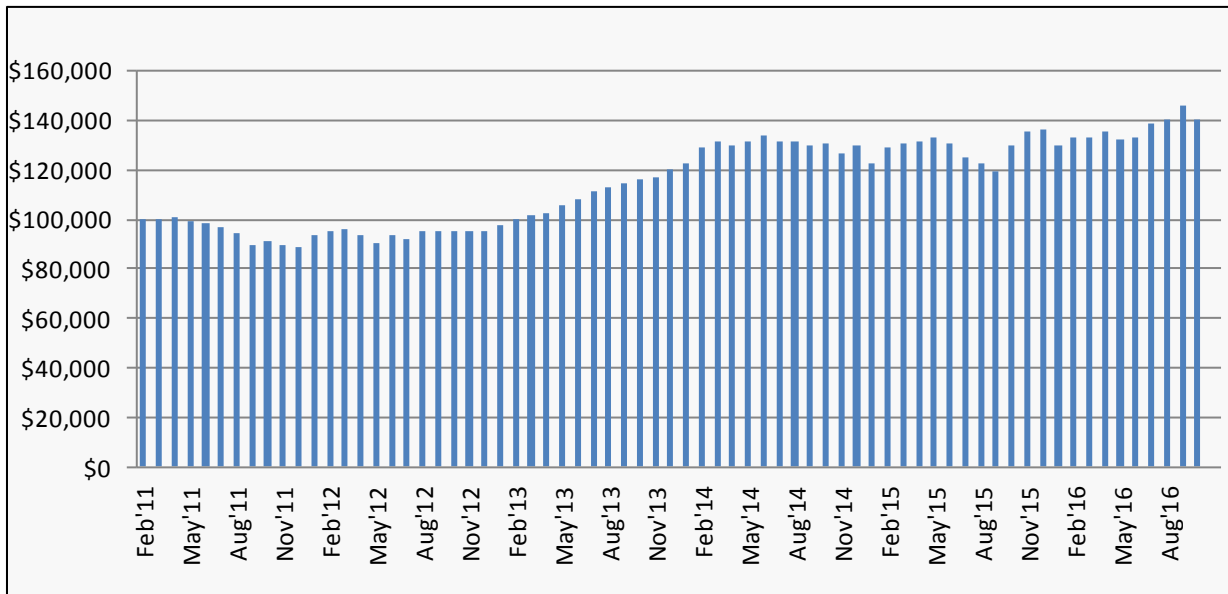
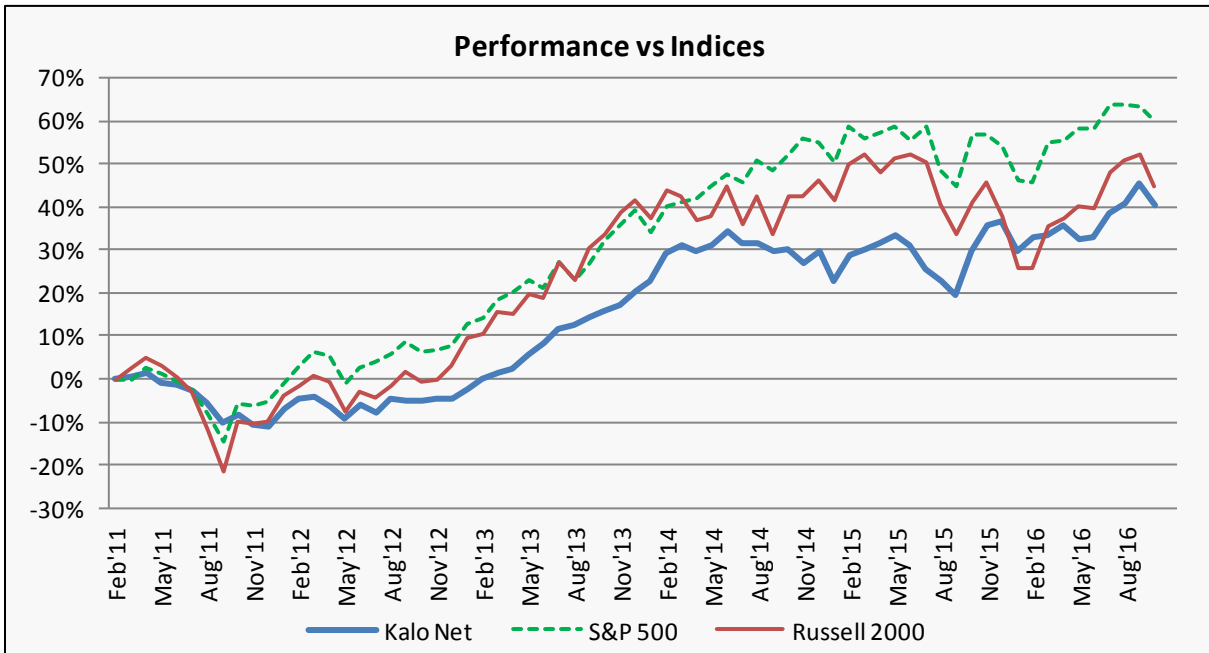
Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM (\$M)	
LP Fund (EGRV)	\$6.5
Separately Managed Accounts (EGRV)	\$5.5
Total AUM EGRV Strategy	\$12.0

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.

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Historical Performance - Emerging Growth with Reduced Volatility



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OVERVIEW OF KALO CAPITAL MANAGEMENT

Strategy

Kalo manages a hedged long/short equity portfolio composed of emerging growth investments complemented by a shorter term trading overlay. Long investments consist of companies where fundamental growth will drive significant cash flows not reflected in the stock price. Kalo focuses on those stocks where downside risk is limited due to current valuation. We look to make short investments where valuation is expensive and fundamentals show signs of cracking. As a complement to our investments, we quickly execute shorter term trades in reaction to events where we see a high probability for returns over the coming one to twelve weeks. This trading overlay consists of both long and short positions when we believe a stock, driven by fundamental news, is in the early stages of a directional move or has had a recent exaggerated move that we expect to revert. Being small and nimble enhances our ability to take advantage of these opportunities.

We primarily invest in the smaller market cap sweet spot of \$200 million to \$5 billion, where larger funds have limited investments due to their size. Generation of stock ideas and research are both performed by Kalo helping us avoid herd mentality. We seek situations where we have a contrarian view, or situations in which a stock has become overlooked by the general market. We find opportunities where the general market overemphasizes near term results and where investor psychology exaggerates stock action.

Risk Control

Kalo places a strong focus on limiting downside risk while generating returns. In addition to our focus on limiting downside risk in each individual name, we use a diversified and unlevered portfolio. Individual position sizes typically range from 1-6%, and the portfolio's typical net exposure is 40%, gross long exposure is 70%. We will reduce net and gross exposure levels when we view market risks as high. For those investors who desire a more aggressive risk/return profile, we offer the KaloPlus strategy which increases all positions 1.5x.

Transparency

Kalo believes it is critical to have investors and management interests aligned. The majority of the Portfolio Manager's personal assets and significant family assets are invested. Kalo utilizes an independent third party administrator and a different independent auditor. The Investment Manager also offers the ability to invest via separately managed accounts.

KALO CAPITAL MANAGEMENT, LP

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 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.

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