

KALO CAPITAL MANAGEMENT, LP

December 6, 2016

Monthly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

For the month ended November 30, 2016, the Kalo Capital Management, LP fund lost 0.9% net, versus a gain of 11% for the Russell 2000. While it is frustrating to see the major indices move significantly higher as our performance lags, we reiterate that we strongly recognize the importance of capital preservation, and thus took a defensive stance entering the election period. Further, as discuss in more depth below, we don't believe the rally was as broad based as it may appear. We also believe that the fundamental risk/reward based analysis we utilize will become important again. We continue to hold conviction in our portfolio and the significant upside potential it holds as the investment community focuses and recognizes these opportunities.

	Nov 2016	YTD
Kalo Capital Mangement, LP	-0.9%	1.7%
Russell 2000	11.0%	16.4%
S&P 500	3.4%	7.6%

Market Update

The dominant theme of this month was the dramatic rally post the Trump presidential election victory. While it may appear that stocks are rising across the board, looking deeper, we would highlight:

- the banking sector led the rally and drove an outsized portion of the gains
- volume based indicators have not risen, as would be expected from a strong broad based market move

Going in to election night, we were expecting a Clinton victory, which we believed would be a negative catalyst for the markets, either immediately or shortly thereafter. We were surprised by the Trump victory. With a Trump victory, we also expected a near term market pullback, which we expected to use as a buying opportunity. And while the immediate market reaction was a pullback in the markets (based on Futures trading), it only lasted for hours with the stock market closed, and then the market rally began.

Looking ahead, we have a renewed sense of optimism. We believe that Trump's proposals could materially stimulate the economy. While it may be unclear at this stage if his strategy will prove successful from an economic standpoint, it marks a shift from what the country has been doing, which has not met expectations. We believe optimism for the new direction will create optimism about the United States economy, which we have not had for many years. This in turn will further stimulate corporate investments and the economy. Further, the expected dramatic cut in corporate tax rates should further stimulate corporate investments, as well as boost the cash flows of many stocks.

Kalo Performance

From a high level view, there appears to be a dramatic capital shift going on since the election, in both asset classes and equity sectors. We have seen a rapid rise in interest rates (from extreme low levels) meaning money is selling bonds and within equities we believe we are seeing a flow of capital out of certain sectors and into others. When combined with the lack of liquidity in the market (which we have commented on for several months), this capital flow is causing stocks to

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materially rise or fall independent of fundamental and valuation based metrics. It is difficult to gauge how much of this shift has occurred up to this point and how much further there is to go, and playing such a shift is not our focus. Historically, we have concentrated on generating alpha by finding fundamental based risk/reward opportunities.

Kalo performance for the month saw little benefit from the stock market rally, as much of the rally excluded out-of-favor names, particularly those with smaller market caps. Many of the out-of-favor or overlooked names (which we gravitate towards) frequently rally with a lag to the general stock market, and have yet to show much of a bounce. Our viewpoint on this is that when the market quickly rallies (as it did post election), funds will flow into the stock market and invest in the popular stocks already commonly owned as well as passive ETF buying. However, once fund flows stabilize and investor focus turns to risk/reward and valuation, many of our out-of-favor and overlooked long positions will accelerate and play catch-up. We have seen this lag effect many times, and are cautiously optimistic that this will play out over the coming months. We would also highlight that our mix of long positions is slanted towards smaller market capitalization companies currently. This has been a natural shift driven by where we are finding the best risk/reward opportunities. Put another way, the larger market cap stocks in general have much already priced-in (as reflected in stock market indices trading at or near all-time highs), while smaller market cap stocks are still very much out-of-favor and far off their highs.

Given our renewed optimism, we have raised our exposure levels on a gross and net basis to more typical levels (currently 83% gross long and 35% net long).

November Performance

In the month of November, the Fund gained roughly 77 gross bps from long positions and lost 173 gross bps from short exposed positions (77 bps from shorts and 97 bps from market hedges). As can be seen on the chart below, the Fund's longs underperformed the Russell 2000, gaining 1% on average vs. the Russell's 11% gain. The shorts rose less than the index, only rising 4% on average. This combined for roughly 4.1% of gross alpha loss.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	77	77%	1.0%
Shorts	(173)	-42%	4.1%
Russell 2000			11.0%

Alpha (Gross performance from stock selection)	-4.1%
Beta (Gross performance from exposure)	3.3%

Our gains were led by Arc Document Solutions (ARC) and Rubicon Project (RUBI).

- ARC is a very inexpensive business going through a multi-year transition, which reported positive momentum in its quarterly earnings.
- RUBI is an example of a stock that had disappointing earnings that resulted in the stock dropping significantly. We took advantage of this by significantly increasing our position and establishing a shorter term trade, as we felt the sell-off was much too extreme, particularly since it was coming from an already dramatically reduced price level. The stock bounced back and regained its losses, allowing us to generate positive returns in aggregate for the stock in the month.

Kalo also suffered a few disappointing quarterly earnings reports at the start of the month which hurt performance.

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- Points.com (PCOM) manages airline miles incentive programs and earn commissions when purchased or utilized. PCOM has several new programs that were expected to accelerate growth, but some have been slow in developing. The stock was already trading at low levels, but the additional delay caused the stock to fall further. It has now become extremely inexpensive on a cash flow basis. We believe the risk/reward is extremely in our favor. In fact, two analysts launched coverage after the earnings call with “Buy” recommendations, and management has recently personally purchased shares. To our surprise, the stock still has not started to rebound since its fall. Interestingly, volume has been quite low. We believe this is yet another example of a stock being overlooked by ETF-followers, and is an excellent investment, which will be recognized in time. We currently hold an investment position, as well as a shorter term trading position in PCOM.
- Datawatch (DWCH) offers an analysis tool for businesses to organize big data. The company has been an underperformer for years, but has recently turned the corner and is starting to slowly gain momentum. They actually had a positive earnings call, demonstrating further momentum. However, the stock fell as they also announced that they would not be selling the company (something that some investors were hoping for). Absent this quick acquisition exit, many investors decided to sell pushing down the stock. We continue to hold a small position as the fundamental business continues to show momentum and has dramatic operating leverage potential.
- BlueNile (NILE) is an online jewelry retailer. In this situation, we were short NILE entering its quarterly earnings report as the fundamentals of the business had been weak and believed the recent run-up in its stock was at risk. Upon the earnings report, we proved to be correct about fundamentals as they reported poor numbers, but, they simultaneously announced their decision to sell the company. As is frequently the case, the takeover valuation was at a premium to the publicly trading valuation, resulting in a performance detractor for our short position.

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%	-0.9%		1.7%	39.0%

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.

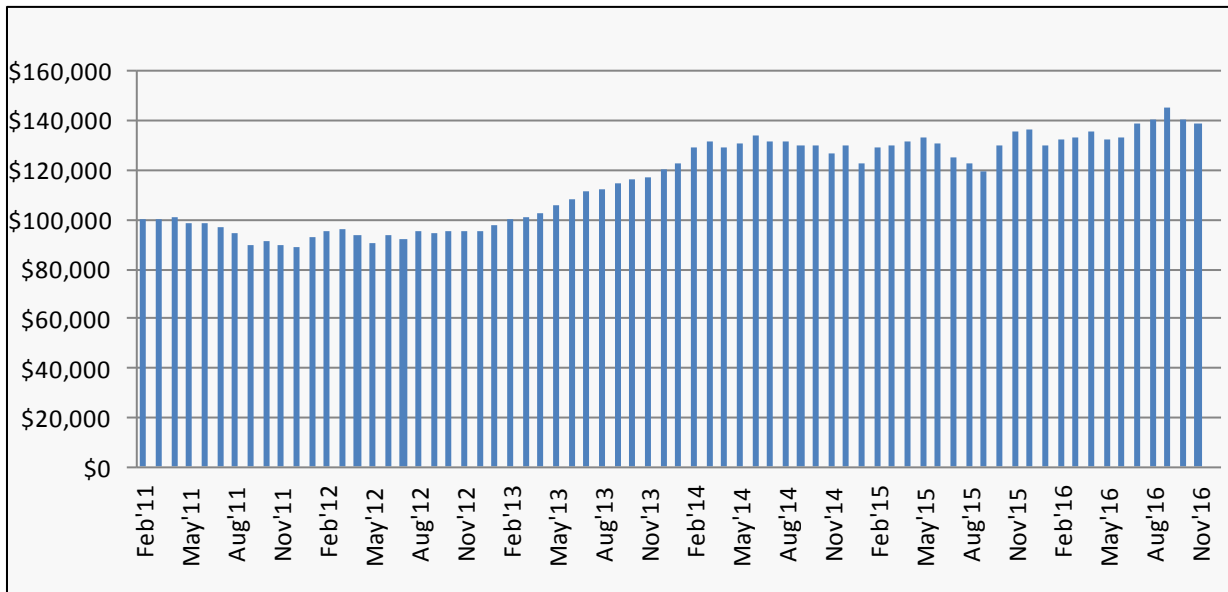
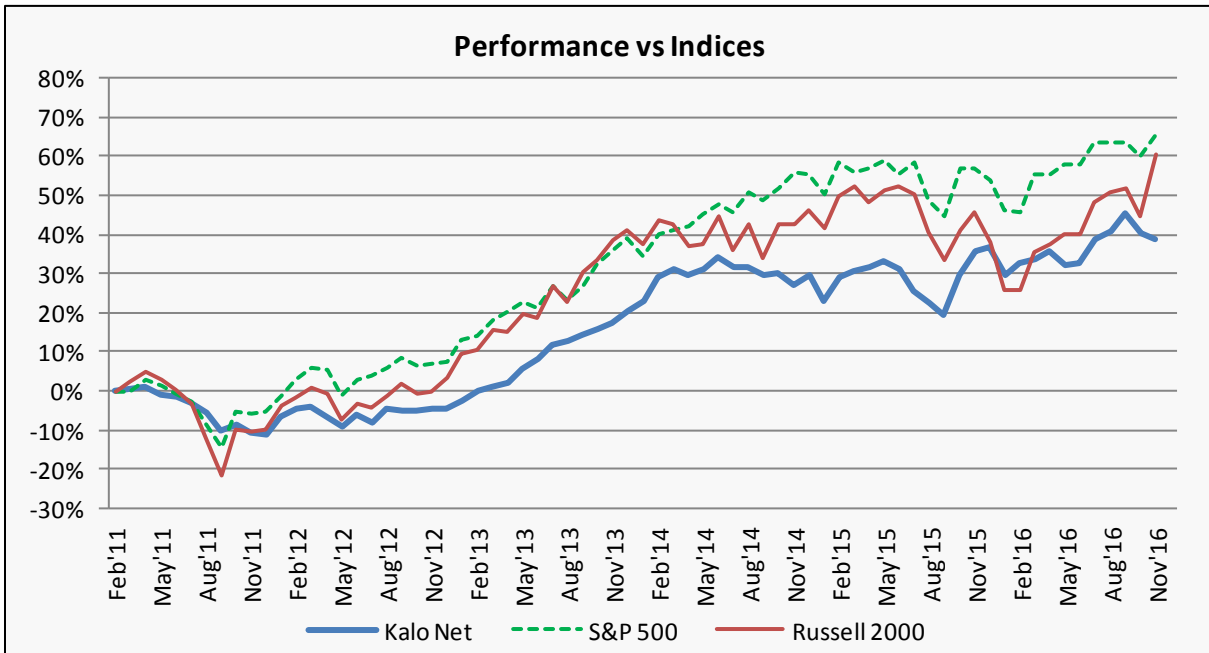
Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM (\$M)	
LP Fund (EGRV)	\$6.5
Separately Managed Accounts (EGRV)	\$5.4
Total AUM EGRV Strategy	\$11.9

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.

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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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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.