April 7, 2017

Monthly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

For the month ended March 31, 2017, the Kalo Capital Management, LP fund gained 1.7% net, versus a loss of 0.1% for the Russell 2000. For the full first quarter, Kalo rose 3.0% net versus 2.1% gain for the Russell 2000.

	Mar 2017	QTD	YTD
Kalo Capital Mangement, LP	1.7%	3.0%	3.0%
Russell 2000	-0.1%	2.1%	2.1%
S&P 500	0.0%	5.5%	5.5%

Markets

The 2016 year ended with a sense of excitement and hope in the equity markets. The unexpected Trump victory sparked rallies in almost any larger cap stock exposed to Mr. Trump's key issues: US infrastructure spend, less regulation (financial, environmental, etc.), and healthcare to name a few. Fund flows shifted massively, investors fled "safe" asset classes and sectors (government bonds, consumer staples, utilities) and bought cyclical and more risky assets (equities, financials, industrials). At the start of 2017, we found that some of our smaller cap stocks, which are often overlooked and not exposed to investor fund flows into passive ETF products, started performing based on their fundamentals and attracting new investor capital. This created stock gains based on fundamental merit, and we found many of our undervalued long positions showed impressive gains. As the quarter progressed, we found the markets shifted again to larger cap stocks with lumpy sector moves, and saw trading volumes thin. In this, we mean that money began flowing into or out of certain sectors and driving performance irrelevant of fundamentals, but instead driven by macro views and the varying political climate. These moves can often be sparked by political macro events and frequently result in higher day to day volatility in performance, but not necessarily more volatility on a quarterly basis. When investors start to only focus on big picture headlines it becomes more difficult to generate alpha performance and more imperative for us to see through this noise and take advantage of stock price fluctuations not tied to fundamentals.

The last week of the quarter brought even more political controversy as the looming vote for Trumpcare was pulled and the markets shifted to the worry that other Trump policies would also be stymied by Congress, such as his new tax agenda. While this created day to day volatility, we still believe the general market environment is healthy.

Then in early April, the Federal Reserve in its meeting minutes actually highlighted their view that equity prices were quite high. We agree with this view in regards to the large cap driven indices. Further, we think this can be a catalyst for investors to look beyond the popular names which have been driven up to these high prices, and towards the less followed names where valuations are more enticing. We believe this environment favors our portfolio. In turn, we have further increased our gross long exposure in expectation of moves higher, as well as finding several new stocks with exciting prospects in the near future. Our gross long exposure is now towards the high end of its common range (currently 93% gross long and 57% net long). While they may not move in a straight line, stocks with improving fundamentals are being noticed and we believe are primed to appreciate over time.

Sectors of Interest

We continue to seek out long positions in companies that are penetrating a market with a product or service with competitive advantages and significant operating leverage. We find these opportunities in a variety of sectors.

Recently, we have initiated short positions in the healthcare sector that we believe have fundamental risks related to upcoming Trump policies. One area that Republicans, Democrats, and Trump seem to agree is that healthcare costs are too high. Further, Trump recognizes that many drugs/services are priced significantly higher in the US than elsewhere in the world, and seems intent on addressing this. As Trump tackles this issue, we believe our shorts in this area are directly exposed to potential new policies that could hurt their earnings power and have significant stock downside risk.

There has been significant stock pressure among retailers in recent months. Brick and mortar retailers are under continued pressure from Amazon, which also impacts strip malls and malls in a negative way. We do not currently have any shorts in this sector as the investor sentiment has already greatly soured, however we do have a long position in an online retailer that we feel has been overly beaten down on competitive concerns, but will benefit from the continued trend away from brick and mortar. We also have a long position in a traditional brick and mortar whose stock we feel has been overly beaten down. In this case, we view their specific product is more protected than most brick and mortars, as the experience of the store is key for them.

Many of the companies we are invested in continue to have exciting long term prospects with strong and improving cash flow generating abilities and reasonable valuations. Many of these holdings can be overlooked by larger investors and traders and gyrate up and down with broader market moves and fund flows, but we anticipate significant appreciation over a longer term time frame. It is difficult to gauge when these stocks will significantly move higher, but we find that when attention turns to a name in this category, it can appreciate significantly in a short time span.

Q1 Performance

In Q1, the Fund gained roughly 685 gross bps from long positions and lost 270 gross bps from short exposed positions (-61 bps from shorts and -210 bps from market hedges). As can be seen on the chart below, the Fund's longs outperformed the Russell 2000, gaining 7.8% on average vs. the Russell's 2.1% gain. The shorts rose more than the index as well, rising 7.6% on average hurting performance. This combined for roughly 3.8% of gross alpha.

Market hedges proved to be costly to performance in the quarter (-210 bps). While we are disappointed in this, we would highlight that we held larger and more frequent hedges due to the start of the Trump presidency. As we discussed in past monthly letters, we have been encouraged with the stock market environment and have grown our gross long exposure in stocks. However, given the recent run-up in the market from late 2016 and the start of the Trump presidency, we also felt there existed more risk than typical for a big market letdown, and thus felt it prudent to have more hedges. Again, these hedges serve as insurance in case of a market downturn and we consider them as part of the cost of protecting capital. We have since become less aggressive with the use of hedges, as we have passed the early months of the Trump presidency. However, we will continue to use some hedges as the broad market has become quite inflated, combined with the Federal Reserve comments about prices being high, geopolitical risk, and recent stock action we have observed. These point to our belief that the broader market will likely flatten or show small losses in the near term.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	685	88%	7.8%
Shorts/Hedges	(270)	-35%	7.6%
Russell 2000			2.1%
Alpha (Gross performance from stock selection)			3.8%
Beta (Gross performance from exposure)			0.3%

Q1 Details

Our gains in the quarter were led by Datawatch (DWCH), Novadaq (NVDQ), Kornit (KRNT) and Telenav (TNAV).

NVDQ: Novadaq (NVDQ) sells fluorescence imaging products used during certain surgeries that enables surgeons to visually see microvascular blood flow. Clinical studies demonstrate better results when surgeons utilize NVDQ's fluorescence imaging. In January (before we had any investment), the stock fell to new lows as management made a business model strategy change and shifted focus to a more recurring business model, at the expense of one-time capital sales. While we believe this shift is beneficial for adoption and the long term success of the company, it will result in a reduction in sales growth in the near term. This disappointment sent the stock careening to new lows. This is an example of a stock where our interest was first sparked due to the significant stock fall. Once learning the story, we liked the risk/reward potential and felt there was an excellent entry point opportunity in the stock. We built both an investment and shorter term trade position. The stock has partially recovered, but we believe there is still significant upside potential and thus still hold our investment, and part of our trade position.

Our losses were led by hedges, Rubicon Project (RUBI), and Exa (EXA).

RUBI: Through earnings season, one stock in our portfolio stood out with fundamental disappointment, Rubicon Project (RUBI). RUBI operates an advertising platform that links buyers and sellers of online advertising. It competes with the likes of Google and Facebook. After disappointments earlier in 2016, we felt the company had properly reset expectations and the stock had bottomed out, and were expecting a rebound in performance as the trajectory of fundamentals turned the corner and started to improve. Unfortunately, the quarterly update proved to be another leg down for the stock as the company further lowered expectations, as the turnaround in its business extended farther out. We believed RUBI to be an attractive takeout candidate at a much higher stock price, but changes in management seem to indicate that a sale is unlikely at this stage, further hurting the stock. While disappointing, the stock's downward move was limited as the company has minimal cash burn and a strong balance sheet. We do still believe the company will turn around the business, but it will be a deeper trough before the turn that originally expected.

EXA: Exa sells simulation software to vehicle manufacturers to simulate fluid flows, such as aerodynamics. Vehicle manufacturers have long utilized wind tunnel testing and other physical testing elements to enhance vehicle designs and improve performance, energy efficiency. EXA's digital simulations are capable of performing many of these tests, in a more advantageous manner. By doing it via computer software digitally, enhancements can be made much earlier in the design phase, more quickly, less costly, and provide even greater enhancements. EXA continues to penetrate its markets and has a significant runway of growth, with significant operating leverage potential. Most recently, the stock dropped due to concerns that Trump policies will reduce the government fuel efficiency requirements on vehicle manufacturers (CAFE standards). Improving fuel efficiency is one of the key aspects EXA software is utilized for and thus is a cause for slight concern; however, we believe any potential hiccup in demand from Trump policies will be short term, if any. Even without government requirements, car manufacturers will still significantly benefit from utilizing EXA software from fuel efficiency and other benefits (such as thermal management). Further, EXA is expanding into other areas such as aerospace design, and the oil and gas industry. EXA remains far off most investors' radar screen, but boasts a stable recurring revenue stream and positive cash flows. In reaction to the stock drop in the quarter, we have increased our position.

Wrap Up

We remain excited for the year and feel that the market environment continues to shift to a more favorable one for our portfolio. 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%	0.4%	4.3%	1.5%	3.5%	-3.7%	-0.9%	0.8%	**2.5%**	**40.1%**
2017	4.1%	-2.7%	1.7%										**3.0%**	**44.3%**

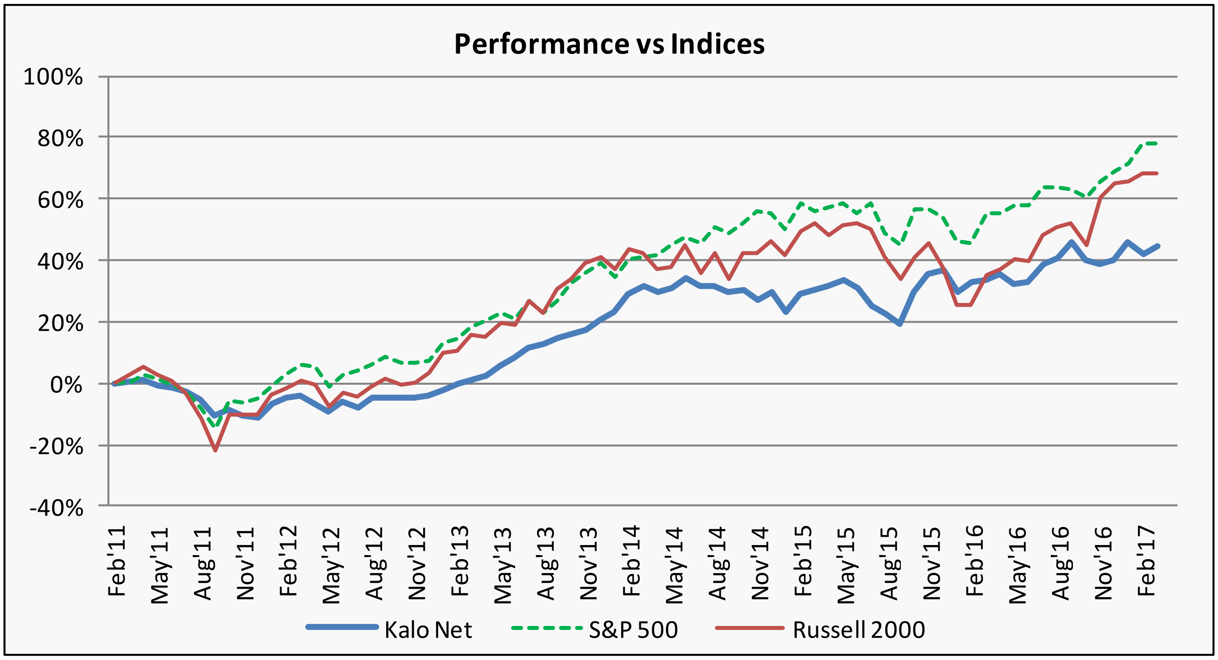
NOTE: The above returns are net of fees. Past performance is not a guarantee of future returns. Annual performance is through December 31 of each year. Returns since inception represent the return since the Fund inception March 1, 2011.

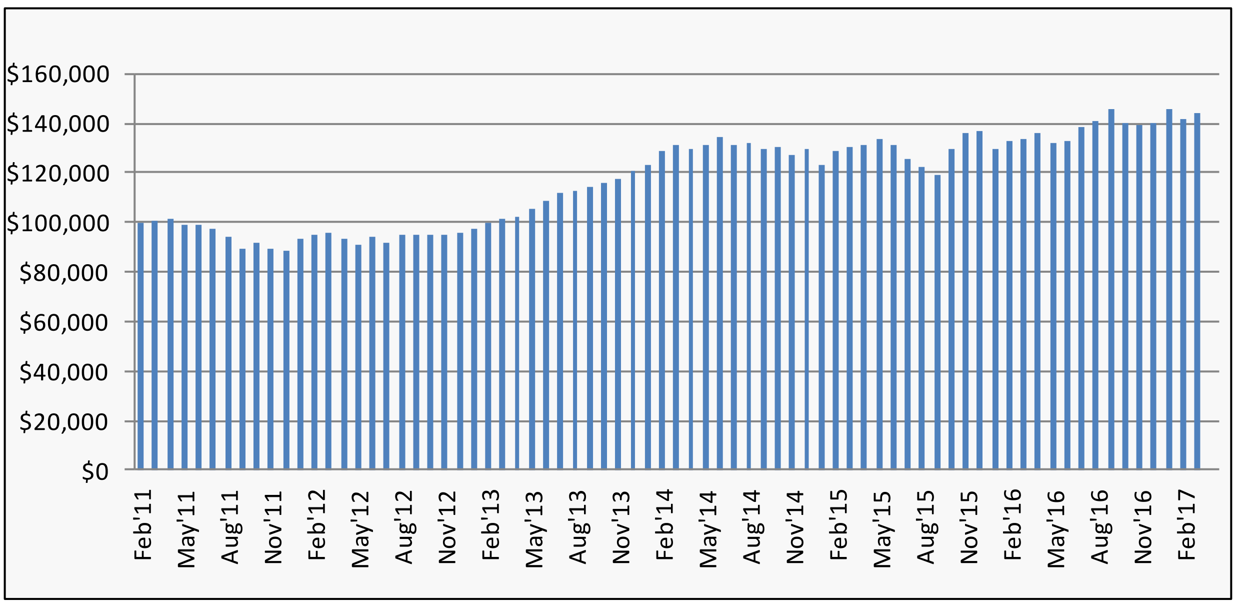
Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM ($M)	
LP Fund (EGRV)	$7.1
Separately Managed Accounts (EGRV)	$5.7
Total AUM EGRV Strategy	$12.8

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

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.

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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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.