July 10, 2017

Quarterly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

For the quarter ended June 30, 2017, the Kalo Capital Management, LP fund gained 5.5% net, versus a gain of 2.1% for the Russell 2000. Year to date, Kalo is up 8.6% net versus 4.3% gain for the Russell 2000.

	Jun 2017	QTD	YTD
Kalo Capital Mangement, LP	6.1%	5.5%	8.6%
Russell 2000	3.3%	2.1%	4.3%
S&P 500	0.5%	2.6%	8.2%

Markets

As the market continues to rise, we find ourselves asking if we are due for a major pullback. We have been reviewing our past experiences as a guide to help us identify indicators. We do certainly believe that the market and the economy is at risk for a pullback, as leverage in the system is even greater in many ways than it was in 2008. And while potential exists for such a pullback to be significant, we don't foresee it occurring in the near future.

Irrational valuations. Irrational valuations and investor euphoria are frequently part of the prelude for a significant pullback. In 2007, we saw irrational excess in the housing industry leading up to the financial crisis. In 1999, we saw irrational prices among internet stocks. Today we see similar excesses in the buying of "passive" ETFs, and the FANG stocks (Facebook, Apple, Netflix, Google). More and more we see ETF excitement in strategies where valuation is not even considered. It is becoming common to hear about trading niche areas like cryptocurrency (Bitcoin and its peers) to make "easy", "quick", and large profits. This creates the potential for a pullback to be significant, but does not mean one is imminent. These excesses can continue and become even more excessive. At the same time, many areas of the stock market are far from seeing excesses… particularly the smaller market cap, underfollowed names. We do believe these areas will also get to stretched valuations before seeing an end to the bull market run.

Fundamental Cracks. In order for the pullback to start, we feel significant cracks need to form that initiate a downward spiral, where one area hurts another, thus magnifying the first crack, etc. In 2008 there were many cracks in housing and consumer spending (restaurants, retailers, automotive) in the months leading up to the major financial crisis in the second half of 2008. Today, we don't see such weakness yet. Many brick and mortar retailers are suffering, but this is more indicative of a share shift to Amazon than it is about consumer spending, so we don't view this as a real crack. It remains to be seen what the impact to the economy and consumer will be when retail jobs are lost and actual malls are abandoned. The oil & gas sector has also had major problems over the last year, but again we view this as more about excess supply issues as U.S. production has increased supply, not an issue of consumer demand. However, we are on alert monitoring economically sensitive industries. The automotive companies and public storage companies are two areas that have hinted things might be weakening, but it is too early to tell if this is the start of a meaningful trend.

We will continue to monitor and look to identify if cracks are increasing, and correspondingly look to protect capital as the risk of a material pullback grows. But for now, we feel that such a pullback is not in the near future.

The Eventual Major Market Correction

One aspect to consider is the Federal Reserve and its ability to prevent such a pullback. We don't believe the Fed can prevent a major market correction when it comes. Inherently the financial markets are structured to push stocks up, and up, and up until hitting some breaking point. We say this because the bulk of the stock market is institutional long-only money that has to invest somewhere.

We also recognize the continued expansion of computerized trading. This greatly enhances the speed at which markets can move in the short term, and the rapidity at which trading volumes can dry up.

This begs the question then of how do we handle this looming risk of a market correction that will likely strike at some point (even if we don't believe it to be in near future). We own individual stocks that we believe have reasonable valuations based on fundamental cash flow driven support levels. Thus, if the market corrects, while these will likely also fall, they will be much closer to valuation support levels and thus fall less. Meanwhile, as other stocks get to excessive levels, we increase our shorts in those names to provide protection. This protection though shorts is a step we have been gradually increasing in recent weeks. Importantly, as we see indications of the economy or market breaking, we are quick to reduce exposure levels and increase hedges (as was done in 2008 with this strategy's portfolio before the Kalo fund was created). In the event that a flash crash occurred, we rely on our stock selection and controlled gross and net risk exposure to protect capital. However, we believe it is more likely that there would be indicators in the months/weeks prior to a fall (like in 2008), where we would have the opportunity to ramp up portfolio protection.

For now though, we do not believe such a correction is imminently upon us, and thus maintain higher than typical gross long exposure and anticipate strong performance in the next six plus months. However, we have also increased our short positions for additional protection, bringing net exposure to typical levels (currently 47% net long).

Areas/Stocks of Interest

Healthcare. We continue to have short positions in the healthcare sector that we believe have fundamental risks related to upcoming Trump policies. However, we have so far been disappointed in Congressional action to control healthcare costs. While there has been lots of talk, there has been little action to actually rein in these costs. Examples of areas we do still expect reform include: i) giving Medicare more ability to negotiate lower prices; and ii) forcing Pharmacy Benefit Managers (PBMs) to break out pricing.

Amazon Effect and Pricing Power. Hype and concern about Amazon taking over just about everything is reaching irrational levels in our view. Excitement and fear seem to have hit new levels with the recent announcement that Amazon would acquire Whole Foods. We do believe that many distribution models are changing, and expect the premium pricing branded products

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will come under competitive pressure in the coming years. Amazon entering the grocery category is indicative of this, although acquiring Whole Foods is only the most recent step along this path. And it is not just the retailers losing market share, but also the branded manufacturers losing pricing power. Many of those most exposed to this are also loved by the investment community and trade at high valuations. This is an area we have also been growing our bearish bets through shorts and puts.

Overstock. Overstock is an interesting name in which we have a long position. Overstock operates an online ecommerce site, similar in style to Amazon or Wayfair. It is a very competitive sector, but Overstock is cash flow positive and we believe will continue to benefit from the continuing tidal shift to more online commerce. They are also taking additional steps to improve their ecommerce market share by increasing their breadth of products. The CEO of Overstock is also a big believer in blockchain technology, which is completely separate from the ecommerce business. Blockchain is a decentralized ledger system used to record transactions, which cannot be retroactively altered. Utilizing blockchain enables companies that need to record official transactions the ability to do so without the need for a centralized clearing house. This technology is utilized for the popular cryptocurrency Bitcoin, but also has significant potential to alter the structure and reduce costs for many industries (stock trading, mortgage recording, insurance, etc.). Overstock has created a subsidiary separate from the ecommerce business (Medici Ventures) which has several investments in blockchain technology. While it is early in the development of this technology, it has significant upside potential and is one of the only ways to invest in this area in the public stock market. Importantly, Overstock's valuation is quite reasonable with significant upside, based on the ecommerce business alone, and then has Medici blockchain investing in addition.

Q2 Performance

In Q2, the Fund gained roughly 996 gross bps from long positions and lost 268 gross bps from short exposed positions (-225 bps from shorts and -43 bps from market hedges). As can be seen on the chart below, the Fund's longs outperformed the Russell 2000, gaining 10.1% on average vs. the Russell's 2.1% gain. The shorts rose more than the index as well, rising 5.8% on average hurting performance. This combined for roughly 5.8% of gross alpha in the quarter.

We continue to notice the stock market becoming streakier in nature, with sectors rising and then falling from day to day or week to week. We believe much of this is due to fund flows, when long-only institutional money decides to shift weighting from one sector to another. Combined with computerized trading and lower trading liquidity, these fund flows frequently result in shorter term stock moves unrelated to company dynamics, which can be evident in the short term, monthly performance numbers. This environment enhances the importance of our analyses to have conviction to stay with stocks when moving in the wrong direction over a short time period, and to take advantage of such moves to capture additional alpha performance.

Over the last several weeks, we have shifted more of our bearish positions into individual stock names and away from index-based hedges. We believe this shift will increase our alpha generation on these bearish bets over the long term, but could result in more short term volatility (positive or negative). We have started seeing volatility in some well-known and loved stocks that have been driven to excessive valuations over the past several years, such as the FANG stocks (Facebook, Amazon, Netflix, Google), as well as auto parts suppliers. While weakness is due to different reasons for different stocks, we do believe some of the investor exuberance is falling in many of these names, and are on the lookout for this phenomenon to expand.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	996	99%	10.1%
Shorts/Hedges	(268)	-46%	5.8%
Russell 2000			2.1%
Alpha (Gross performance from stock selection)			5.8%
Beta (Gross performance from exposure)			1.4%

Q2 Details

Our gains in the quarter were led by Novadaq (NVDQ), Liveperson (LPSN), and USA Technologies (USAT).

NVDQ: As we profiled last month, Novadaq (NVDQ) sells fluorescence imaging products used during certain surgeries that enables surgeons to visually see microvascular blood flow. In January 2017 the business began a transition toward a recurring model at the expense of one-time capital sales and the stock hit new lows. Once learning the story, we liked the risk/reward potential and felt there was an excellent entry point opportunity in the stock. After building both an investment and shorter term trade position, NVDQ became one of our largest positions and led to gains in Q1 2017. Towards the end of Q1 2017, we reduced our trade position as the stock achieved roughly 20% gains. Then in June the stock fell back down to its lows. As it fell, we grew our trade position again, and were rewarded on June 19, when it was announced that NVDQ would be acquired by Stryker, the medical device company, at a 96% premium. NVDQ ended up accounting for roughly 360bps of our 996 bps gross gains from long positions in the quarter.

Our losses were led by a short position in the furniture retail sector and a long position in Imax (IMAX).

IMAX: Imax (IMAX) operates the Imax form of movie production. These Imax films are converted into enhanced image and sound fidelity to improve the customer experience, typically on larger screens. IMAX manufacturers and sells theatre projection systems for new Imax theatres and earns a percentage of box office sales shown at Imax theatres. During the quarter, IMAX stock fell significantly (roughly 34%) due to disappointment in recent box office sales. We attribute the severity of this fall to the investment community overemphasizing near term results, and missing the bigger picture. Our belief is that the movie industry has typical boom/bust cycles based on new releases, and we are just in a slower period. However, this will rotate back to a boom period in time and attention will come back to IMAX. In fact, the next iteration of Star Wars is to be released in December, which we expect to draw significant consumer interest. Meanwhile, management has recently announced cost cutting programs and a material stock buyback program. There are several other characteristics that we look for in a long position that gives us comfort, such as: i) IMAX owns roughly 70% of Imax China, giving them significant exposure to China, and the tailwind of their growing economy; ii) IMAX has a multi-year backlog of new planned rollouts of additional Imax theatres which will generate revenues and expand the box office sales opportunity, many of which occur through joint venture programs limiting IMAX capital expenditures; iii) the long term recurring nature of most of their business (existing system maintenance and box office sales that recur, even if they do bounce around from quarter to quarter); iv) positive cash flows; v) strong consumer brand with barriers to entry; and vi) responsible management with shareholder friendly programs. Consequently, we have dramatically increased our position at these low levels, added a Trade position, and purchased some call options.

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.

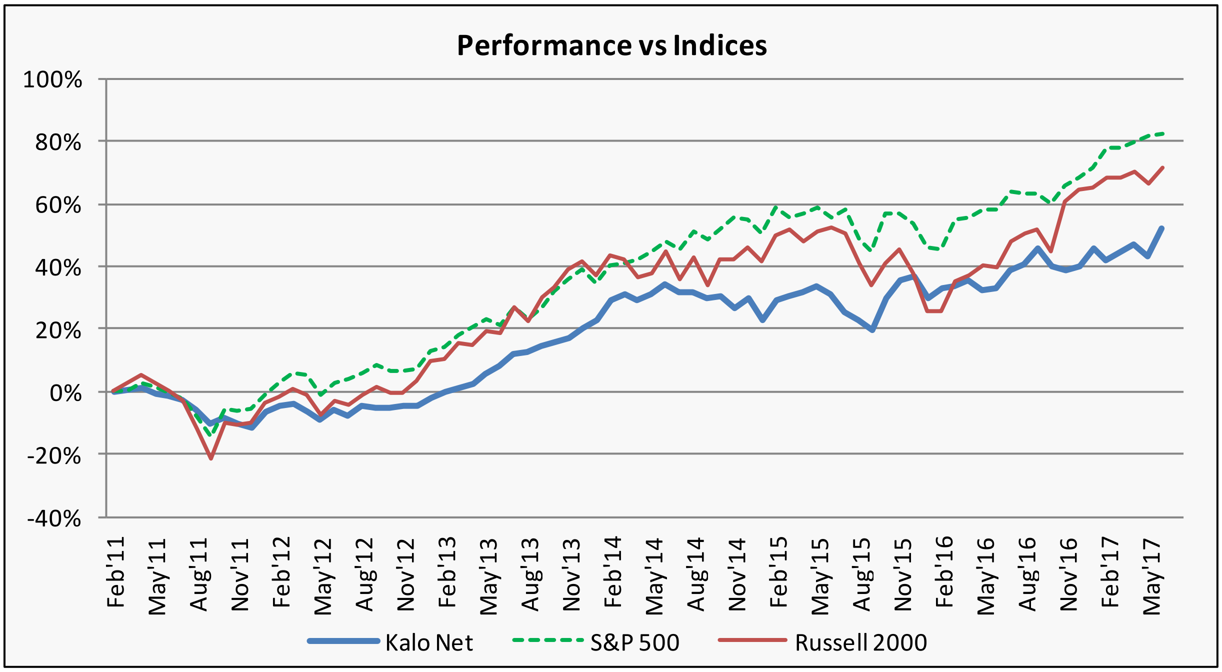
Sincerely,

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 Net 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%	1.7%	-2.3%	6.1%							**8.6%**	**52.2%**



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.

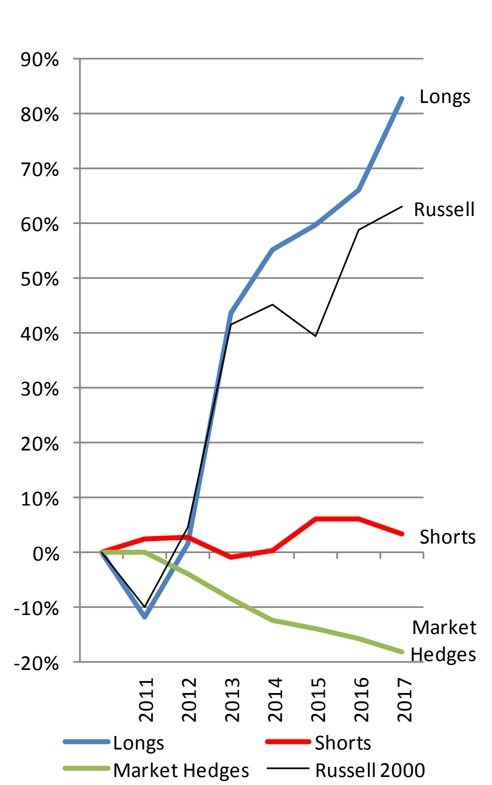
Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM ($M)	
LP Fund (EGRV)	$7.6
Separately Managed Accounts (EGRV)	$6.2
Total AUM EGRV Strategy	$13.8

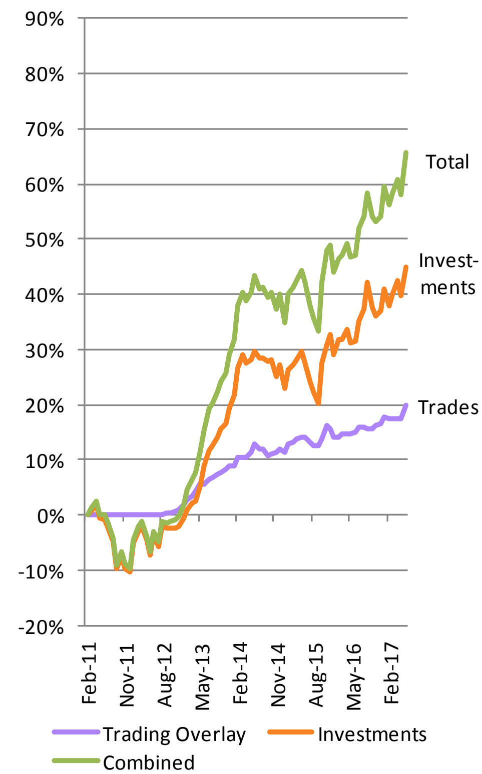
Note: Kalo Capital Management, LLC also manages separately managed accounts for clients using alternative strategies which sometimes invest in the same positions as those held by EGRV strategy (Emerging Growth with Reduced Volatility) used by the Kalo Capital Management, LP fund. The Fund utilizes several methods to ensure all accounts are treated equally.

Historical Gross Performance Breakdown

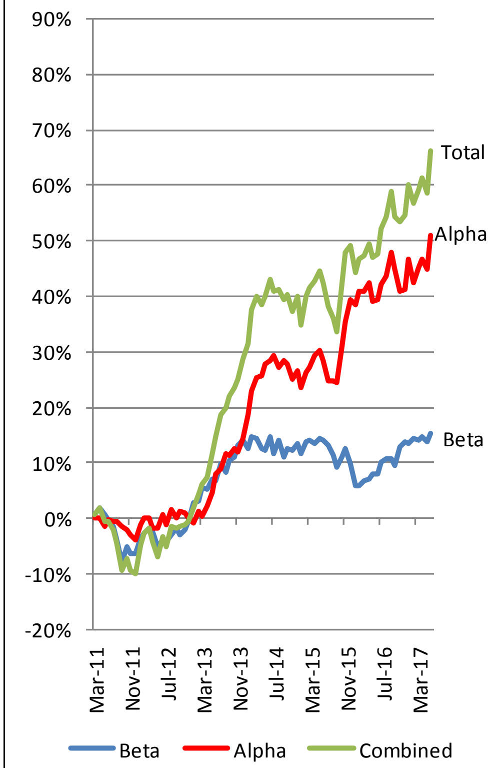
Longs vs Shorts



Investments vs Trades



Alpha vs Beta



NOTE: The above are gross returns before management fees. Past performance is not a guarantee of future returns. Returns since inception represent the return since the Fund inception March 1, 2011.

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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Performance and other quantified metrics shown here are estimates. Actual investor returns will differ. Past performance is not necessarily indicative of future results.

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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.