October 9, 2017

Quarterly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

For the quarter ended September 30, 2017, the Kalo Capital Management, LP fund gained 6.1% net, versus a gain of 5.2% for the Russell 2000. Year to date, Kalo is up 15.3% net versus 9.7% gain for the Russell 2000.

	Sep 2017	QTD	YTD
Kalo Capital Mangement, LP	7.8%	6.1%	15.3%
Russell 2000	5.9%	5.2%	9.7%
S&P 500	1.6%	3.6%	12.1%

Markets

Early in the quarter we started hearing faint warning signs of a slight slowing of the economy from a few companies. We began pondering if this might be the beginning signs of fundamental cracks in the economy. We have yet to hear these warning signs grow, thus we are still comfortable that the economy continues to hum along, and are cautiously optimistic that President Trump's recent push for a change in tax codes will act as another stimulant to the economy, if passed.

During the quarter, we saw one natural disaster after another as Texas, Florida, and Puerto Rico were all hammered by individual hurricanes. Despite the local devastation, we don't expect these events to materially impact the overall economy on a national level.

The quarter had moments of increased racial tensions highlighted by protests over Confederate statues, with violence on both the right and left. More recently the spotlight has focused on the NFL where some players are kneeling during the national anthem. These continued racial divides are worrisome and seem to be a step in the wrong direction for the country.

The Federal Reserve has begun its path toward gradual tightening from its historically loose monetary policy. There is still concern that inflation and interest rates will rise, which could negatively impact the massive fund inflows that equities have seen over the past several years, and could act as a catalyst for a drop in indices. While a concern, we have not yet seen evidence of this actually occurring. Janet Yellen is also widely rumored to not serve another term and Trump has a list of candidates which may or may not change the expected path of policy. As a side note, while we voice our opinion and make slight adjustments to our portfolio based on these economic items, they are not a driving force of our positions. We recognize that these insights are not where we have a differentiated edge.

On the geo-political front, North Korea remains an uncertain and potentially very volatile situation. We found that concerns around North Korea were impacting the stock market to a small extent in August, but these impacts have since faded. We feel the stability in the stock market and investors' risk appetite have become decoupled from reality. Bursts of volatility and market selloffs from domestic or geopolitical events are being rapidly met by investor buying ("buy the dip"). From our viewpoint, if there is a significant escalation with North Korea, it could prove very detrimental to the economy, which we would expect to then flow through to the stock market. Given the heightening tensions, the likelihood of this has grown. Despite the

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escalation of tension, general investor concern seems to be at extremely low levels, based on the low prices of the volatility index (VIX) and the high levels of the major indices. We believe this decoupling is being driven by continued fund flows into ETFs, as well as the popularity of the strategy of shorting volatility. In our opinion, these forces are in effect the tail wagging the dog, pushing the indices to new highs and investors' exposure to high levels, despite the heightened risks that exists. We believe that if and when big institutions try or are forced to unwind the "short volatility, long equities" trade, the overall market may go from no volatility to an extremely volatile state in a short period of time.

Where does that leave Kalo? As always, our first concern is protection of capital. We recognize that if things go wrong with North Korea, the Federal Reserve plans, (or something off the radar completely), these good times could turn bad very quickly. As a result, we continue to hold a high exposure level of short positions and continue to utilize out-of-the-money put options as a form of insurance for the portfolio. This insurance has been negatively impacting performance but helps us (and hopefully you) sleep better at night. At the same time, given the stability of the economy, we continue to manage a high level of long positions. While many of our long positions have made material stock price increases this year, we still believe there are significantly more increases to come across the long portfolio. Many of our stocks are still far from high valuation levels and should benefit from the continuing stability in the economy.

Shift in the Market

For the last few quarters we have expressed our growing belief that the stock market environment was turning more favorably for smaller market cap companies that are less followed. We continue to believe this and expect it to continue for some time. We recently took note of a quote from the famous investor, Jim Rogers:

> *"If somebody can just take the time to focus on the stocks that are not in the ETFs, there must be fabulous opportunities in those stocks because they're ignored," he says. "Some of them have got to be doing very, very well. And nobody's buying them, because only the ETFs buy stocks."*

This quote exemplifies how we have felt. Most ETF fund flows have been driving increases in the loved/mega cap stocks over the last few years, and other stocks have been mostly ignored…. until recently. As other investors recognize this opportunity in these other names (many of which we own), we believe these names will be pushed higher.

It is worth noting that this phenomenon for smaller underfollowed companies, fluctuating between in-favor and out-of-favor, is common. In fact, we have noticed that these stocks can frequently underperform versus their fundamentals for a couple of years, and then play catch up all at once. We believe that to enhance returns it is helpful to recognize when this momentum develops to be appropriately sized for stronger returns and alpha generation. This recognition is why we increased our gross long exposure earlier this year and maintain a high gross long exposure now.

Overall, the indices and overall investing environment continues to be remarkably steady and any weakness in one sector has been rapidly met by buyers (fund flows) in another sector. The biggest, most loved index names FANG+ (Facebook, Amazon, Netflix, Google, Apple etc.)

continue to generally remain at high prices but have seemed to stall as investors look elsewhere for returns. We are hopeful that this recent stable environment of low volatility and upward momentum will continue but realize that extreme excitement can be rapidly met with unexpected fear. We strive to not be reactive or swayed by emotional market extremes. As we mentioned last quarter, we have shifted many of our bearish positions into individual names and away from index-based hedges. We believe this shift will increase our alpha generation on these bearish bets over the long term.

Areas/Stocks of Interest

AAXN: Axon Enterprises, formerly known as Taser, is a company that sells products to the law enforcement industry. They are the clear leader for non-lethal weapons (Tasers) as well as body and police car cameras, that are rapidly penetrating agencies in the US and internationally. As domestic tensions escalate combined with public concerns over the police using too much force, we believe it is only a matter of time before all agencies equip officers with non-lethal Tasers as well as body and car cameras. Axon has recently launched a marketing program offering free one year trials to police agencies for body cameras, in the US and Canada. We expect this sales method, which has no upfront capital requirement from police agencies, will drive accelerated adoption. We believe the service quickly becomes a resource agencies depend upon, and thus difficult for them to cancel once adopted. The company is very excited about early feedback from this trial, and we expect it will succeed in accelerating growth and solidifying Axon's market share leadership.

Q2 Performance

In Q3, the Fund gained roughly 1283 gross bps from long positions and lost 473 gross bps from short exposed positions (-373 bps from shorts and -100 bps from market hedges). As can be seen on the chart below, the Fund's longs outperformed the Russell 2000, gaining 12.8% on average vs. the Russell's 5.2% gain. The shorts rose more than the index as well, rising 8.1% on average hurting performance. This combined for roughly 6.1% of gross alpha in the quarter.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	1,283	101%	12.8%
Shorts/Hedges	(473)	-59%	8.1%
Russell 2000			5.2%

Alpha (Gross performance from stock selection)	6.1%
Beta (Gross performance from exposure)	1.7%

Q2 Details

Our gains in the quarter were led by Exa (EXA), Overstock (OSTK), Points International (PCOM), and USA Technologies (USAT).

EXA: We profiled Exa in our Q1 2017 letter. Exa sells simulation software to vehicle manufacturers to simulate fluid flows, such as aerodynamics. At the time we discussed how we increased our position after seeing the stock fall from roughly $15.50 to under $13. Since then, we had increased our position further as we gathered positive data points adding to our

conviction level. The rebound in the stock culminated in its recent announcement that it is being acquired at a premium, slightly over $24. Exa is a typical example of a stock we identify with solid fundamentals penetrating a market, that is mostly overlooked by the investor community and trading far below fair valuation levels.

OSTK: We profiled OSTK in our Q2 2017 letter as a misunderstood company with a cash flow positive ecommerce business coupled with investments in the burgeoning blockchain technology space (we view the blockchain investments as somewhat of a call option for the company). The largest blockchain investment is a majority ownership in T0 (T-Zero), which is creating a blockchain based ledger platform for capital markets, that essentially can operate as a more efficient trading platform for securities. In September, T0 announced they became the first SEC/FINRA compliant platform to manage Initial Coin Offerings and trading in the burgeoning cryptocurrency market. Cryptocurrencies (such as Bitcoin) have generated lots of global excitement and fund flows (over $145 billion of market capitalization across all coins as of September 2017). We believe this announcement will act as a fundamental catalyst for T0 to develop significant trading over its platform for cryptocurrencies, and eventually more traditional securities. The T0 trading platform has significant advantages over traditional platforms including transaction costs 80-90% lower and tremendously faster trade settling. The OSTK stock, which had already been performing well, went to new highs on the recent news. We remain excited about the name, and believe there is still significant upside from their blockchain investments, of which T0 is only one. Other investments look to utilize blockchain technology for business payments, Know Your Customer and Anti Money Laundering compliance, voting and land titling, and others.

PCOM: We profiled Points International in our November 2016 letter. PCOM manages airline miles incentive programs and earn commissions when purchased or utilized. Since our last mention, the business has struck a partnership with Expedia (details of which aore not fully disclosed) and accelerated their stock buyback plan with an automatic program that is significant in both its size and speed. We recognized the potential for these new events to act as a catalyst to the stock and added a trade on top of our existing investment position. We continue to hold this investment and trade as we believe there is still further upside.

USAT: USA Technologies is a company we have been following and shareholders in for many years. They equip vending machines with hardware and software to allow consumers to pay with credit cards and electronic payment methods like ApplePay. Not only is this more convenient for consumers, but materially increases the purchasing that occurs at a vending machine. USAT is a leader in this field with low current penetration levels, a recurring revenue business model, and significant operating leverage. We believe there is still significant upside in the stock and continue to hold a large position.

Our losses were led by a couple of our more speculative long positions, Aqua Metals (AQMS) and MeetMe (MEET). We have reduced our exposure to each of these, but still believe they have significant upside and are closely following the stories with an eye towards new data that will increase our conviction, at which point we may increase our exposure.

AQMS: Aqua Metals has developed a proprietary process (AquaRefining) to recycle used lead-acid batteries at a lower cost and with less emissions than the traditional method of smelting used by the industry. The current lead-acid battery smelting industry is a $20 billion per year market.

Typically we avoid stocks like this, where a new unproven process attempts to generate traction in an existing industry, normally waiting until the traction starts in order to reduce our downside risk. In this case, we became involved earlier, before the first operating plant was fully operational and proven to work, because Aqua Metals received a significant equity investment and contract in early 2017 from Johnson Controls (the largest battery manufacturer). This relationship with Johnson Controls, as well as an earlier investment from Interstate Battery Company (largest battery distributor), and evidence that the AquaRefining process had been demonstrated at a smaller scale, gave us the conviction to invest at this early stage. Unfortunately, the ramp-up learning period for their first plant has taken longer than originally intended and has led much of the investment community to lose faith in the company. These missteps have also given us pause, and thus we have reduced our exposure. However, we still believe that Johnson Controls' involvement is significant and a positive indicator of the significance of the AquaRefining process, and are optimistic that the company will overcome their plant ramp-up challenges, and develop a strong business. Consequently, we are closely following their progress and will look to increase our exposure as we get more conviction.

Wrap Up

We remain excited for the year and feel that the market environment shift, to a more favorable one for our portfolio, will continue. 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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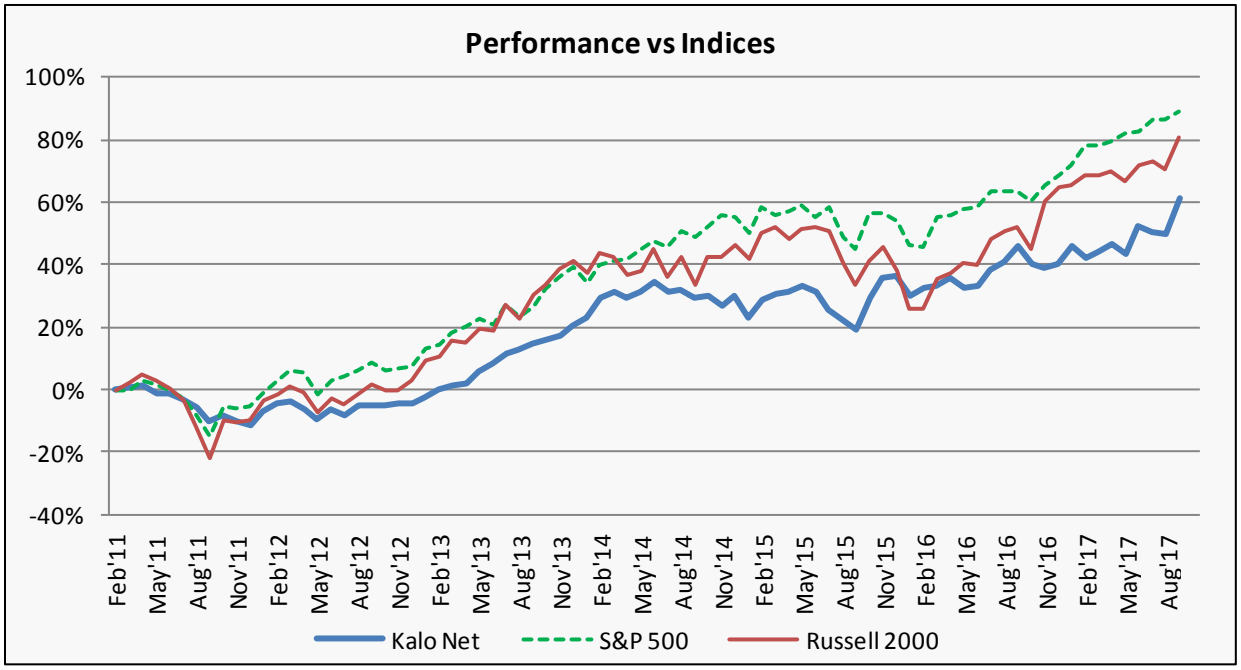
Historical Kalo Net Performance - Emerging Growth with Reduced Volatility *

	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%	-1.0%	-0.6%	7.8%				**15.3%**	**61.5%**



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)	$8.2
Separately Managed Accounts (EGRV)	$6.1
Total AUM EGRV Strategy	$14.3

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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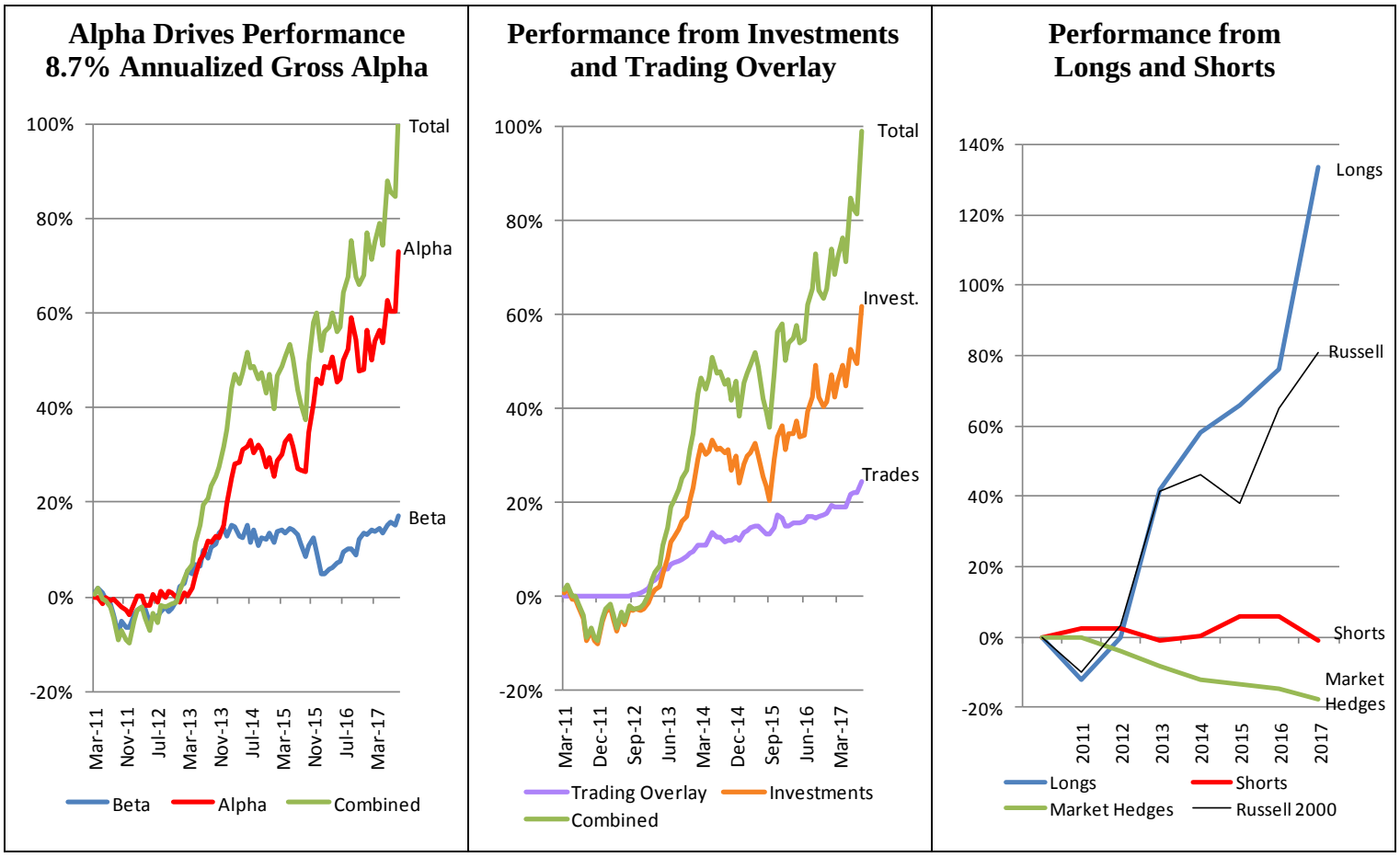
Historical Cumulative Gross Performance Breakdown



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.

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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.

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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.