KALO CAPITAL MANAGEMENT

October 4, 2018

Quarterly Report - Kalo Emerging Growth with Reduced Volatility Strategy

Dear Investor:

For the quarter ended September 30, 2018, the Kalo Capital Management, LP fund was flat with a 0.0% net performance (preliminary), versus a gain of 3.6% for the Russell 2000. Year to date Kalo is up 21.2% net versus 11.5% for the Russell 2000.

Net Performance	QTD	YTD
Kalo Capital Mangement, LP	0.0%	21.2%
Russell 2000 (IWM)	3.6%	11.5%
S&P 500 (SPY)	7.7%	10.4%

Q3 2018 Review

In Q3 2018, the Fund gained roughly 170 gross bps from long positions and lost 120 gross bps from short exposed positions (+35 bps from shorts and -150 bps from market hedges). With the gross long exposure running higher than typical during the quarter, we had increased hedges, which hurt performance as the broader market generated significant gains in the quarter. This loss was offset by strength from long positions, but not enough to generate meaningful gains for Kalo in the quarter. In addition, our individual short positions did slightly improve performance. As can be seen on the chart below, the Fund's longs underperformed the Russell 2000, gaining 1.7% on average vs. the Russell's 3.6% gain. This underperformance was mostly driven by one position that suffered material losses (which we discuss further in the Q3 Detailed section). Excluding this one stock, longs would have risen an average of approximately 5%. The shorts/hedges rose less than the index, rising 2.6% on average, hurting performance. Bottom line: Kalo generated gross alpha performance of -1.4% and gross beta performance of +1.9% in the quarter.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	170	99%	1.7%
Shorts/Hedges	(120)	-45%	2.6%
Russell 2000 (IWM)			3.6%
Alpha (Gross performance from stock selection)			-1.4%
Beta (Gross performance from exposure)			1.9%

Markets and Kalo Portfolio Update

The third quarter saw a continued rise in indices to new highs. There is continued investor complacency as seen through a very low VIX (volatility index) level and there seems to be a general view that nothing can shake this market in a material way. Over the last few weeks we have seen smaller cap stocks meaningfully underperform and decline. This recent small-cap weakness is broad-based and seems to be driven by investor fund flows shifting to large, global companies (as opposed to a fundamental operations slowdown). While we believe this is only a transient impact and the small caps will bounce back, we have also increased our hedges to help protect capital if this is a prelude to a greater market fall.

We remain very bullish on the domestic economy. Consumers' disposable income looks set to grow driven by jobless claims remaining near all time lows, the continued impact from tax cuts, and signs of wage increases.

Regarding the tariff environment, the US replaced NAFTA and struck the USMCA deal with Mexico and Canada with improved terms. It remains to be seen what happens with China trade negotiations, however we are optimistic that we will strike a new deal with them in time, and that any short-term fallout due to tariffs will not be nearly as negative as the media hyperbole suggests.

Lastly, interest rates have continued to rise driven by the gradual rate increases set by the Federal Reserve. The ten year yield now rests over 3% and 30 year mortgage rates have now risen above 5%. While the Federal Reserve has been gradual in their rate increases, we are somewhat concerned that these high levels could slow the economy down or lead to a shift in portfolios away from equities. However, taking into account the other economic strengths discussed, we remain bullish.

Our gross long exposure is at higher than typical levels, driven by gains across many core positions, and trade opportunities that we have identified. However, our net exposure is at a more typical level as we increased some short positions and hedges. Currently we are 30% net long delta-adjusted (104% long and 74% short).

Q3 2018 Details – Gains

Our gains in the quarter were led by Attunity (ATTU), Park City Group (PCYG), Cardlytics (CDLX), and a social media company short position..

Attunity (ATTU). ATTU provides software to enterprises which helps enable real-time access to data across the IT environment in order to improve data warehousing, big data analytics, and other cloud initiatives. We first became interested in this company in early 2018 after seeing them present at an investor conference. After researching the business and understanding the fincancial opportunity, we determined the stock offered an excellent risk/reward opportunity and was overlooked by the investor community. ATTU was also in the process of shifting their business model to a more recurring sales process, which was in turn accelerating customer demand. After reporting a strong Q2, the stock generated significant gains. We have trimmed our position given the strong gains, but still believe there is significant upside as the business continues to gain momentum.

Park City Group (PCYG). PCYG is a supply chain solutions company. They manage a portal that links retailers, vendors and suppliers, helping them with central management of inventory as well as showing which food/merchandise vendors are compliant with regulatory and safety rules. The business generates mostly recurring revenues and has a significant opportunity to continue penetrating its market. In addition, the company has recently launched a new Marketplace portal to improve supplier purchasing for large retailers, that has significant potential and opportunity to materially accelerate PCYG's growth. The business appears to be gaining traction as they struck a recent deal with "one of the worlds largest retailers" who recently completed a pilot and adopted the platform as well as discussions with some other large retailers. The stock is far off the radar screen of most investors and trades far below its potential. Management also has a strong track record, and personal stake in the business with combined management owning approximately 37% of the business. Over the Summer, we learned of the growing momentum and potential of the new Marketplace division and established both an investment and trading position in the stock. We continue to remain excited about the opportunity.

Q3 2018 Details - Losses

Our biggest losses in the quarter came from USA Technologies (USAT) and hedges.

USA Technologies (USAT). We have discussed USAT in a couple of past letters. In mid-September (when we held a core investment position), USAT announced that they would be delaying the filing of their financial statements, awaiting an internal audit investigation of the accounting treatment and internal controls of certain contracts. This unexpected and vague update was not received well by investors, and the stock has since fallen over 50%! As of now, we are still awaiting more details from the company. It is our belief that the market has significantly over reacted to this news. We are big believers in their core fundamental business of enabling vending machines to receive credit card/mobile payments, with its sticky, recurring business model. Most recently, the company had been building strong momentum and demonstrating operating leverage (prior to this news). With investors seemingly assuming the worst, we have increased our position and established an additional trade position in USAT. We are optimistic that the stock will bounce back and become a strong gainer in the future.

Index Hedges. Due to our higher than typical gross long exposure, upon weakness, we have been quick to add index hedges and put options in an effort to protect the portfolio downside risk. However, with the strong performance in the indices during the quarter, this caused losses from these hedges. Typically in bullish markets, we look for these hedging losses to be more than offset by stronger gains from our individual long positions, which gives us comfort to hold a larger gross long exposure level.

Wrap Up

We continue to feel that many of our largest positions still have significant upside potential. We continue to feel well positioned as investors seek out strong fundamental stories with reasonably priced valuation. But protection of capital remains a key focus underlying our strategy, and we will continue to look to act quickly to market changes in an effort to control downside risk.

On an operational note, we have completed the process of upgrading our prime brokerage to Jefferies Prime Services.

Our fund continues to remain open to new investors and we encourage those potentially interested to reach out to us. 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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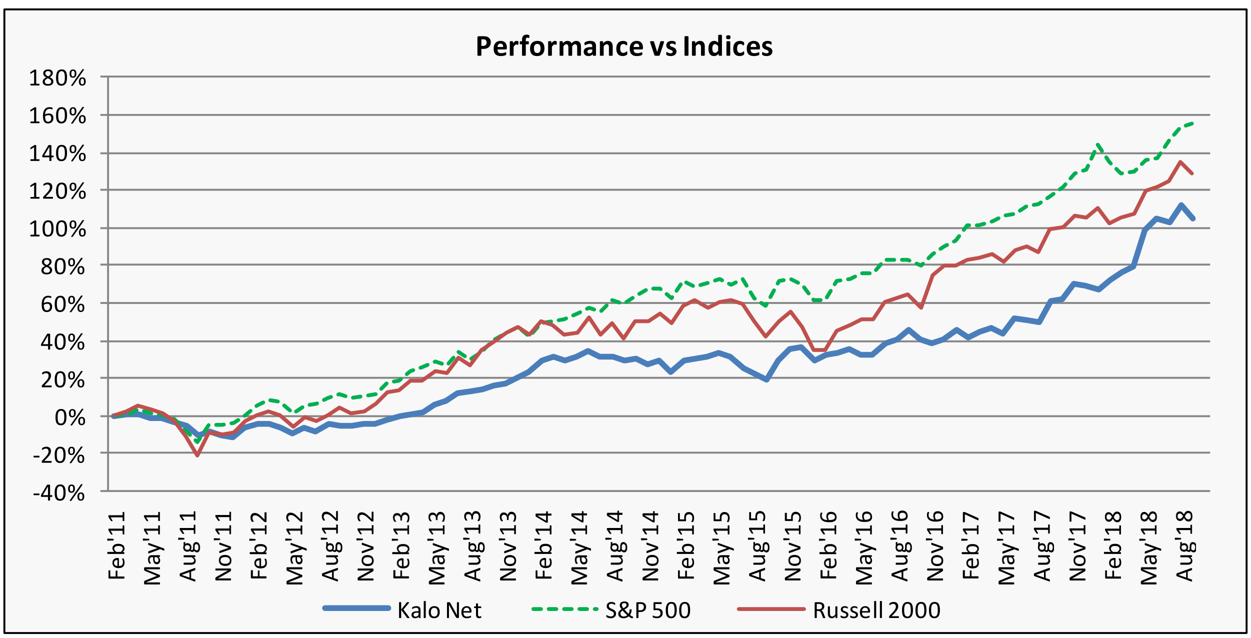
KALO CAPITAL MANAGEMENT

Historical Kalo Net Performance - Emerging Growth with Reduced Volatility *

	Kalo LP	Russ. 2000	S&P 500
Total Net Return	**105.4%**	129.3%	155.2%
Compound Annual Return	**10.0%**	11.6%	13.1%
5 Year CAGR	**12.4%**	11.1%	13.8%
Annualized Alpha (gross)	**10.4%**		
5 Year Annual. Alpha (gross)	**14.0%**		
Annual Downside Volatility	**5.4%**	9.0%	5.9%
Max Drawdown	**(12.4%)**	(25.6%)	(17.0%)
Sharpe Ratio	**0.93**	0.78	1.17
5 Year Sharpe Ratio	**1.05**	0.82	1.36
Sortino Ratio	**1.78**	1.29	2.11
5 Year Sortino Ratio	**2.16**	1.36	2.57

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Incep.
2018	(1.2%)	3.0%	2.2%	1.6%	10.8%	3.5%	(1.3%)	4.9%	(3.3%)				**21.2%**	**105.4%**
2017	4.1%	(2.7%)	1.7%	1.7%	(2.3%)	6.1%	(1.0%)	(0.6%)	7.8%	0.1%	5.2%	(0.4%)	**20.9%**	**69.4%**
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%**
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%**
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%**
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%**
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%)**
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%)**



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.

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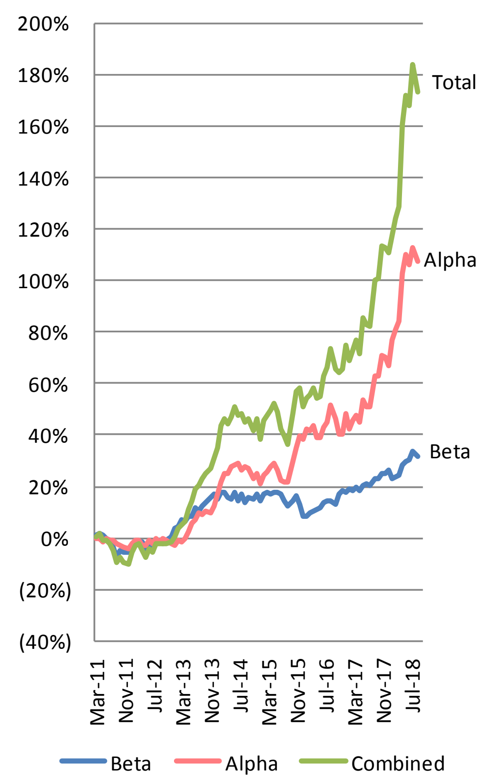
Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM ($M)	
LP Fund (EGRV)	$14.6
Separately Managed Accounts (EGRV)	$7.8
Total AUM EGRV Strategy	$22.4
Additional Trading Strategy Only Assets	$2.9
Total Combined AUM	$25.3

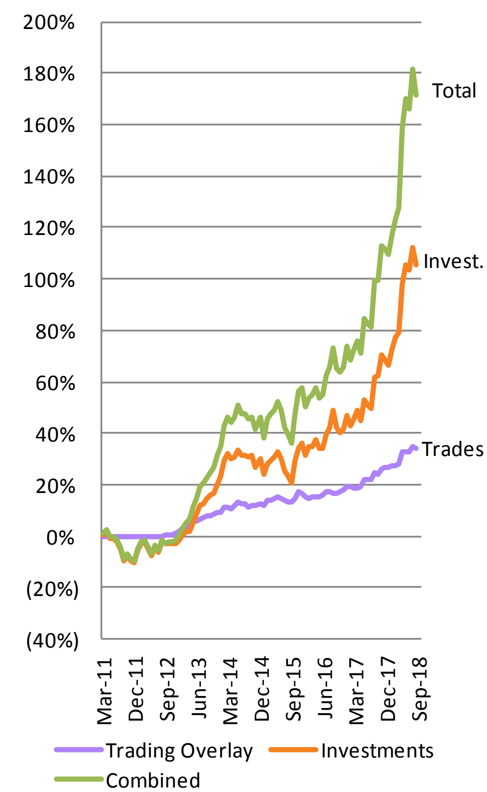
Note: Kalo Capital Management, LLC also manages separately managed accounts for clients using alternative strategies which sometimes invest in the same positions as those held by EGRV strategy (Emerging Growth with Reduced Volatility) used by the Kalo Capital Management, LP fund. The Fund utilizes several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

Historical Cumulative Gross Performance Breakdown

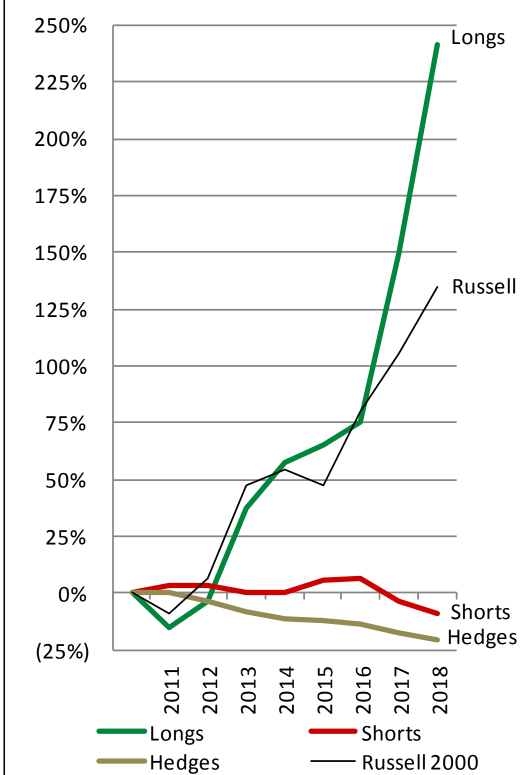
Alpha Drives Performance
10.4% Annualized Gross Alpha



Performance from Investments and Trading Overlay



Performance from Longs and Shorts



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.

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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 independently performed by Kalo. 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 portfolio with little to no leverage. Individual position sizes typically range from 1 to 6%, and the portfolio typically has a net exposure of +25% to +60%, and gross long exposure of 60% to 100%. 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. 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.

LEGAL DISCLAIMER

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