

January 7, 2019

Quarter and Full Year Update - Kalo Emerging Growth with Reduced Volatility Strategy

Recent Performance

Net Performance	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018 Year
Kalo Capital Mangement, LP	4.0%	16.6%	0.1%	(13.6%)	4.8%
Russell 2000 (IWM)	(0.2%)	7.9%	3.6%	(20.3%)	(11.1%)
S&P 500 (SPY)	(1.0%)	3.6%	7.7%	(13.5%)	(4.6%)
DWAS (Small Cap Momentum)	1.7%	9.0%	4.4%	(19.8%)	(10.7%)

For the full year, Kalo gained 4.8% net versus a loss of 11.1% for the Russell 2000. For the quarter ended December 31, 2018, the Kalo Capital Management, LP fund lost 13.6% net, versus a loss of 20.3% for the Russell 2000.

This year was really a tale of two markets. We had a very strong first eight months where we captured significant alpha. Towards the end of the summer we felt comfortable and confident with the portfolio since we viewed the economy as strong despite continued macro and geopolitical uncertainties. As a result, we found ourselves with relatively high gross and high net exposure levels as the market entered its pullback. The first leg of the market pullback in October was quick. Our performance suffered and was compounded by a stock specific issue with one of our largest positions. At this point, we reduced our gross and net exposure levels to better protect the portfolio. We entered December with our gross long exposure at 84% and net exposure at 42% (typical levels). Unfortunately, December saw renewed vicious selling resulting in further negative performance.

We are disappointed that we didn't do a better job of protecting gains from earlier in the year. The material drawdown has led us to critically analyze what happened and to identify the causative factors as to why performance was not better. Below are the key stand-outs to us and the methods through which we will look to better avoid these situations going forward:

- Exposure levels were too high entering the drawdown. This was partially due to earlier strength in some holdings which pushed our exposure levels higher and which we did not proactively lower enough. Moving forward we will more regularly review overall portfolio exposure levels to keep them better maintained.
- Short positions disappointed. There were situations where we covered short positions too early. The total market drawdown and shift in the market environment was admittedly more dramatic than we expected. After several years of seeing names bounce back or stabilize after falls, we too frequently chose to lock in gains on short positions, only to see the stocks fall further after, limiting the gains from our short positions. In other situations, our shorts simply have not fallen as much as the general market. Many of these are more well-known and loved stocks that have been quicker to stabilize amidst the dramatic market sell-off. We do believe these names have more downside.
- Our long positions have suffered significant downside volatility. We frequently discuss how our longs focus on underfollowed and out-of-favor names. We find that this serves us well and generates significant alpha over the long term. However, in times like this past quarter, the liquidity in these names can dry up quickly. With limited investor bases that follow these names, there can be little market interest on buying these stocks in periods of general market weakness. When this lack of short term buying interest is combined with motivated selling, it can lead to quick and dramatic short term losses (more severe than the rest of the market). This can also be seen when analyzing recent

performance by market cap, where the smaller marketcap names generally suffered larger falls. We believe that many investors were looking to reduce exposure levels and many funds were dealing with year-end investor redemptions, forcing these funds to sell to reduce their holdings. This motivated selling combined with short term stock liquidity issues, can combine for big sell-offs in these names in the short-term. We have seen this situation occur in the past, most notably in summer 2015, summer 2011, and 2008. While these short term losses are disappointing, we believe they are only short term, and actually create additional alpha generating opportunities.

Our View on 2019

At this point, our exposure levels are 87% long and 42% short, for a 45% net exposure level. We still strongly believe our long positions are on track fundamentally and have significant valuation-based stock upside. Much of the dramatic sell-off in Q4 2018 we believe was driven by fund redemption-driven selling, which can hurt smaller market cap names more severely. We believe this forced selling headwind will be significantly alleviated now that 2018 year end has passed. We have selectively added long exposure in stocks that we believe particularly suffered from these situation-driven losses and which pose an excellent entry point with fantastic upside. It is difficult to predict when buying interest will renew, however, we strongly believe this demand will come as individual companies report strong numbers and fundamentals progress throughout the year. Further, when this fundamentally-driven demand comes, it will lead to significant stock gains.

The stock market environment is clearly different than it has been in several years. With that has come increased daily volatility. We anticipate keeping our exposure levels in the low to typical range for Kalo, similar to our current 87% gross long and 42% short, for a 45% net exposure, as we anticipate the recent higher daily volatility to continue.

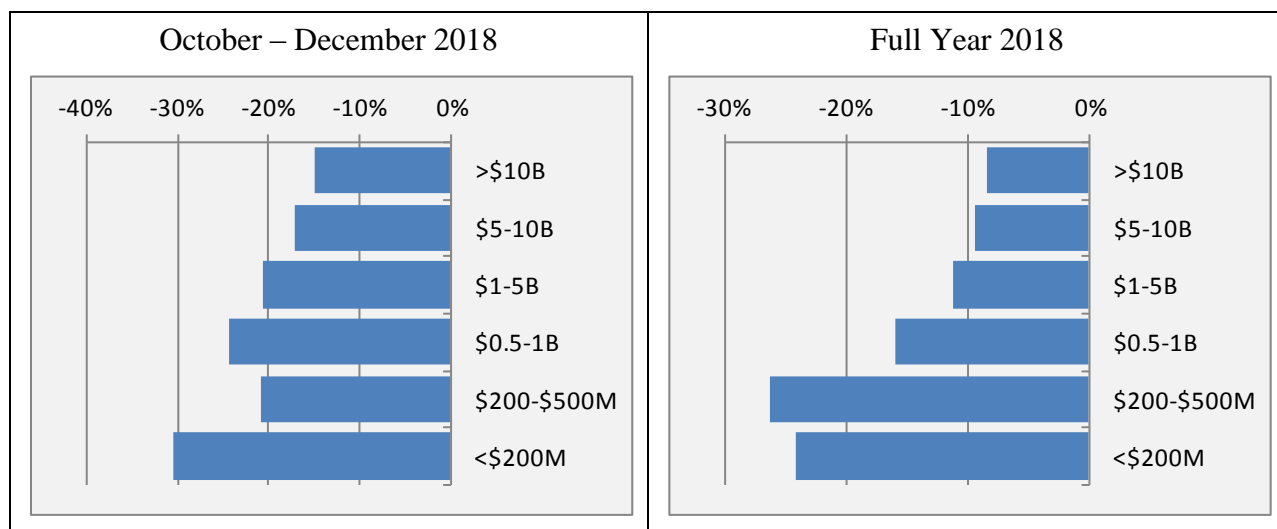
Even if the stock market takes another leg downward, we believe our performance should be significantly better than Q4 2018. In general, while the less-followed names (many of our longs) have been severely hurt by the issues mentioned above, many of the more well-followed names (some of which we are short) are still near their highs.

We continue to believe the underlying domestic economy is solid. However, we have seen several datapoints indicating weakness internationally. Further, we are concerned that the stock market weakness itself may cause the economy to slow. We remain bullish about the fundamental prospects of our longs, as we focus on companies penetrating existing markets, that are more insulated from macro issues than other stocks.

Significant drawdowns are never fun and we strive to limit them to the best of our ability. However, we firmly believe that this is a transitory setback and our long positions will make back their Q4 2018 losses. Further, the recent weakness may actually improve our alpha generation over the long term, as we are able to add long exposure at lower prices.

Market Cap Analysis

We analyzed stock price performance by market cap range in an effort to demonstrate the increased volatility in the smaller market cap stocks, which we view as a reasonable proxy for the underfollowed stocks we frequently own. As you can see, in Q4 2018, the larger cap names (greater than \$5 billion market cap) fell roughly 16%, while smaller cap names fell roughly 22% (\$200 million to \$1 billion). Over the course of the full year, the larger cap names greatly outperformed the smaller cap names (down 9% vs down 20%). The prior year in 2017, the larger cap names also outperformed the smaller cap names (up 22% vs up 17%). This recent phenomenon acts as a headwind to Kalo performance, as our longs tend to be smaller market cap names, while our shorts tend to be larger market cap. In times when this switches and the smaller caps perform on par or better than the large caps, Kalo’s performance has the wind at its back and generates stronger returns (such as 2013). We believe these two environments tend to balance out over the long term.



Note: Market cap performance segmentation is internally calculated based on starting market caps for a broad universe of 800-1,000 stocks across a variety of sectors Kalo Capital tracks. Performance numbers are median values based on a best efforts basis and are for informational purposes only.

Q4 2018 Review

In Q4 2018, the Fund lost roughly 2300 gross bps from long positions and gained 770 gross bps from short exposed positions. Our longs underperformed versus the Russell 2000, as our smaller market cap / underfollowed names had more dramatic losses in the market sell-off. As can be seen on the chart below, the Fund's longs fell 26.6% on average vs. the Russell's 20.3% fall. The shorts/hedges fell less than the index as well, falling 16.0% on average. Bottom line: gross alpha performance of negative 8.2% accentuated losses in the quarter.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	(2,300)	87%	-26.6%
Shorts/Hedges	770	-48%	-16.0%
Russell 2000 (IWM)			-20.3%

Alpha (Gross performance from stock selection)	-8.2%
Beta (Gross performance from exposure)	-8.2%

2018 Full Year Review

In 2018, the Fund gained roughly 680 gross bps from long positions and gained 60 gross bps from short exposed positions. Despite the market sell-off, we generated gains on long positions over the full year. As can be seen on the chart below, the Fund's longs outperformed the Russell 2000, gaining 7.2% on average vs. the Russell's 11.1% loss. The shorts/hedges on average fell less than the index, falling 1.4% on average. Our gains from our shorts were held back by losses earlier in the year, and the greater stability across many of our shorts in the market sell-off. Bottom line: gross alpha performance of 11.3% drove our gains for the year.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	681	94%	7.2%
Shorts	62	-45%	-1.4%
Russell 2000			-11.1%

Alpha (Gross performance from stock selection)	11.3%
Beta (Gross performance from exposure)	-3.1%

We are pleased that despite the market fall of 11.1% for the Russell 2000, we were up 4.8% net for the year. We trust our learning experience will help us perform better in the years to come.

The fund remains open to new investments and we encourage anyone 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,



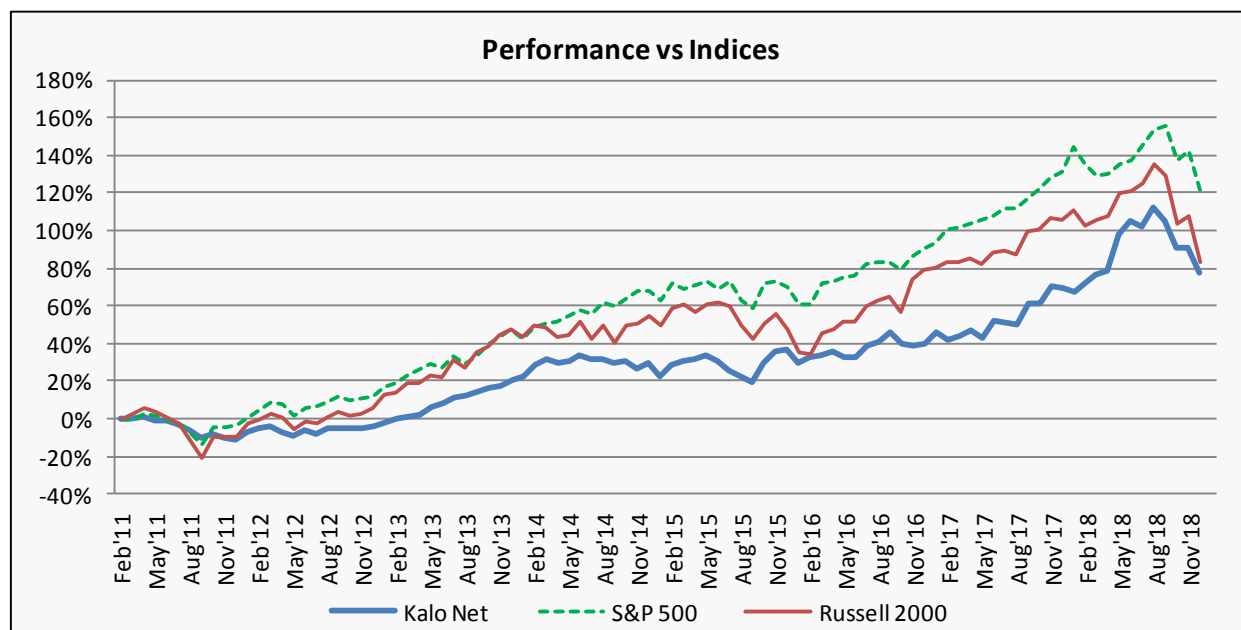
Steven D. Friedman, CFA
 Founder and Chief Investment Officer

Please note that Kalo's expectations and strategy can change regularly and the views expressed here may change.

Growth with Reduced Volatility *

	Kalo LP	Russ. 2000	S&P 500
Total Net Return	77.5%	82.8%	120.7%
Compound Annual Net Return	7.6%	8.0%	10.6%
5 Year CAGR	8.1%	4.4%	8.4%
Annualized Alpha (gross)	8.7%		
5 Year Annual. Alpha (gross)	11.2%		
Annual Downside Volatility	6.4%	10.6%	7.1%
Max Drawdown	(16.4%)	(25.1%)	(16.2%)
Sharpe Ratio	0.68	0.53	0.90
5 Year Sharpe Ratio	0.65	0.33	0.75
Sortino Ratio	1.17	0.80	1.46
5 Year Sortino Ratio	1.13	0.46	1.15
Correlation to Russell	65%		87%
Correlation to S&P	53%	87%	

	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%)	(7.2%)	(0.0%)	(6.9%)	4.8%	77.5%
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%)



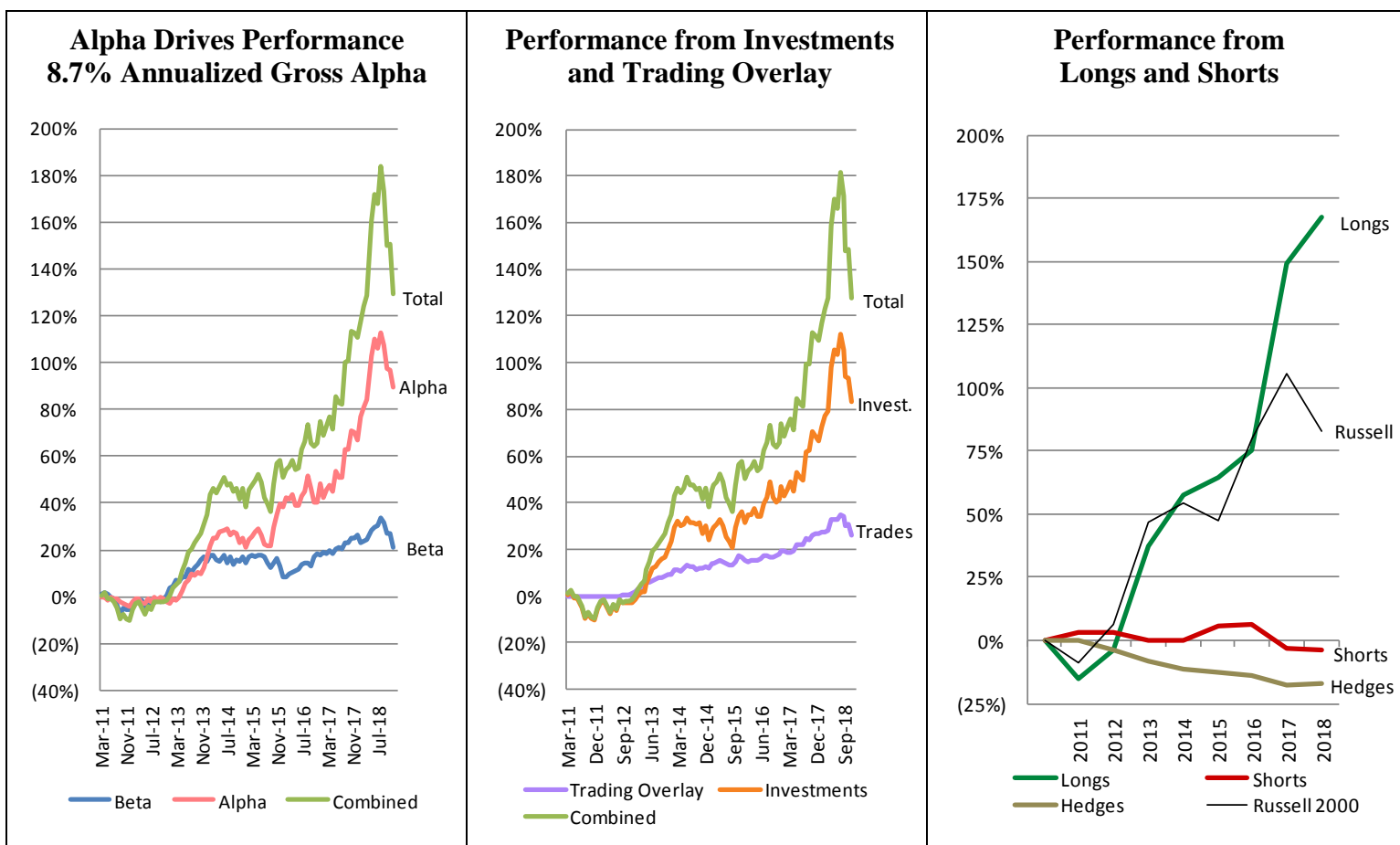
NOTE: The above returns are net of fees. Past performance is not a guarantee of future returns. Annual performance is through December 31 of each year. Returns since inception represent the return since the Fund inception March 1, 2011.

Assets Under Management - Emerging Growth with Reduced Volatility

Kalo Capital Management, LLC AUM (\$M)	
LP Fund (EGRV)	\$12.4
Separately Managed Accounts (EGRV)	\$6.4
Total AUM EGRV Strategy	\$18.8
Additional Trading Strategy Only Assets	\$2.5
Total Combined AUM	\$21.3

Note: Kalo Capital Management, LP uses the EGRV strategy (Emerging Growth with Reduced Volatility). Kalo Capital Management, LLC also offers separately managed accounts that trade pari passu with the fund. In addition, Kalo offers separately managed accounts that only participate in the Trading Overlay portion of the EGRV strategy.

Historical Cumulative Gross Performance Breakdown



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 reverse. 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.

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. Steven 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). Steven 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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