April 8, 2019

Quarterly Report - Kalo Capital Management, LP

Recent Performance

Net Performance	Jan 2019	Feb 2019	Mar 2019	YTD 2019	Since Sep 30, 2018
Kalo Capital Mangement, LP	**8.9%**	**4.2%**	**0.6%**	**14.2%**	**(1.4%)**
Russell 2000 (IWM)	11.3%	5.2%	(2.1%)	14.6%	(8.6%)
S&P 500 (SPY)	8.0%	3.2%	1.8%	13.5%	(1.8%)
Small Cap Momentum ETF (DWAS)	10.5%	6.5%	(1.3%)	16.1%	(12.2%)

In the first quarter, Kalo gained 14.2% net versus a gain of 14.6% for the Russell 2000. Stock markets rallied significantly in January and February 2019 after an abrupt fall in Q4 2018. March has shown some turbulence and it remains unclear if the recent rally will continue.

After significantly scaling back our exposure in November, we slightly increased exposure again at the end of 2018 as we saw numerous long opportunities in significantly beaten-down stocks. With a gross long exposure in the 80's%, and a net exposure in the 30-40% range, we saw a strong start to January. We maintained similar gross long exposure through February, while gradually increasing our shorts and buying out-of-the-money puts to reduce our net exposure. In fact, our net exposure was brought below 20% during February. In March, we continued to reduce exposure levels, bringing gross longs down to the 70s% and net exposure to positive single digits.

Despite the lower exposure levels (average gross long of 81% and net exposure of 14% for the quarter), we generated significant gains driven by strong alpha performance from our longs (over 13.4% of gross alpha in the quarter drove 14.2% net gain). Despite positioning the portfolio more conservatively, Kalo made back almost all its losses from Q4 2018. When looking at the fund's net performance since September 30, 2018 (when the stock market drawdown began), Kalo has a 1.3% net loss, while the Russell 2000 was down 8.6% (as of March 31).

Current View Ahead

Our current delta-adjusted exposure level is 82% long / 70% short for a positive 12% net. This level is quite low for us historically (in fact we rarely go below 20% net exposure). Below is a historical exposure chart for Kalo using monthly averages which demonstrates the rarity with which we run with net exposure this low.

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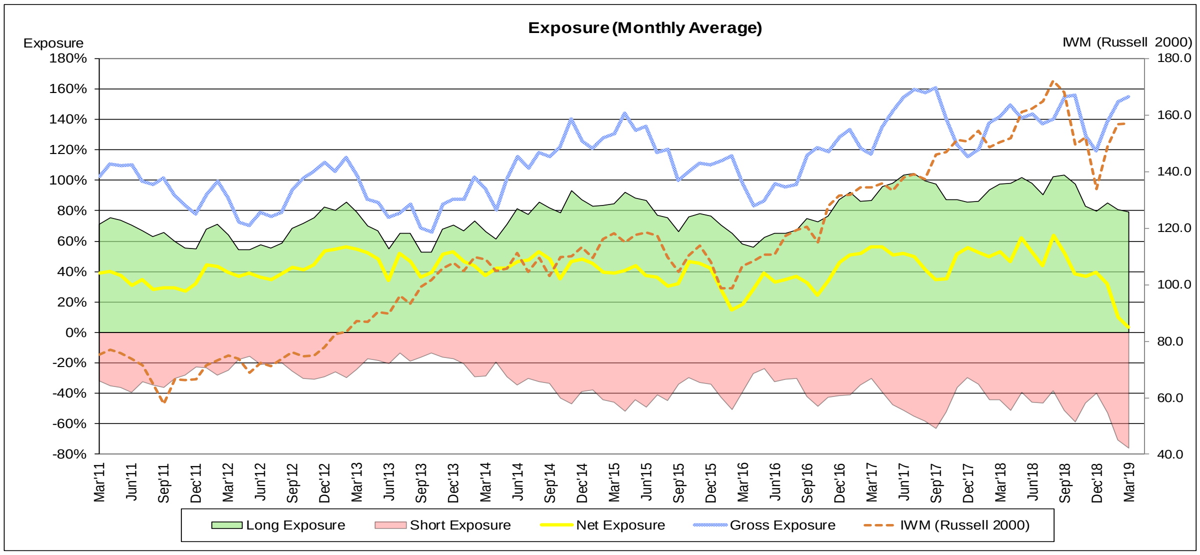


Why are we so bearish? After several years of feeling the economy was growing robustly, we are now seeing several indicators that economic growth is starting to slow. The Federal Reserve has indicated they are seeing “slightly slower growth conditions in the US, while also being mindful of slowing global growth slowing”. We are also hearing an increasing number of CEO comments about slowing global conditions (some tied to China/US tariffs uncertainities). For example, FedEx commented about “slowing international macro economic conditions and weaker global trade growth trends.” We are also concerned by recent stock market volatility (which we view as unhealthy). The quick and dramatic sell-off, followed by a rip back up to the S&P 500 being near its highs is a pattern of concern. Looking deeper, we see many well-known stocks now trading well above their highs from the end of September. This continued flight to favorite names regardless of valuation seems unhealthy to us, and we feel this is possibly a prelude to a more dramatic market sell-off (names such as OKTA, MDB, TWLO, COUP are well-known with high valuations and are up 40% on average since the end of September). Consequently, we feel motivated to keep our exposure levels in check.

Simply put, given the market volatility in the past six months, combined with our view of macro uncertainty, we feel it is prudent to be more cautious at this time. We saw similar warning signs of market turbulence ahead of the financial crisis in 2008. In late Summer 2007 and Winter 2007/2008, there were some brief sell-offs for major indices, as well as fundamental indications that parts of the economy were weakening. In that time period, I reduced exposure levels in the portfolio I was managing, leaving the portfolio better positioned for the significant collapse in Fall 2008 (pre-Kalo independently managed strategies at other firms). This is not to say we are expecting a market collapse like the one that occurred in 2008… in fact we are not. However, we do feel there is significantly more risk than upside at this time for the broader market.

In addition to market conditions, we also frame our exposure levels based on idea generation. Currently, we are finding fewer long stocks that meet our criteria and have attractive valuations. When we find fewer longs that we’re excited about, we’ll have less long exposure. And on the flip side, when we find more exciting short ideas (where upside seems limited and downside risk to the stock significant), we’ll have higher short exposure. That being said, we are quite excited about the longs that we do have in the portfolio right now and believe there is exceptional alpha generation to come from them.

As always, our views are not set in stone and we will react quickly to changing circumstance.

Q1 2019 Review

In Q1 2019, our gains were led by alpha performance across many of our long postions. Despite a lower gross long exposure, we generated significant gains across our long book. The Fund gained roughly 27.4% gross from long positions and lost 10.2% gross from short exposed positions. Our longs outperformed versus the Russell 2000 as the Fund's longs grew 33.8% on average vs. the Russell's 14.6% rise. The shorts/hedges grew slightly more than the index as well, rising 15.2% on average, hurting performance. Bottom line: gross alpha performance of positive 13.8% drove the strong performance in the quarter.

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	2,744	81%	33.8%
Shorts/Hedges	(1,019)	-67%	15.2%
Russell 2000 (IWM)			14.6%
Alpha (Gross performance from stock selection)			13.8%
Beta (Gross performance from exposure)			4.2%

Insight Into How We Think About Stocks

Below are examples of stock-specific commentary to give insight into how we think about stocks.

The Joint (JYNT): The Joint is an underfollowed core position for Kalo. The company operates and franchises individual chiropractic clinics offered directly to consumers outside of health insurance. This was one of our top positions through 2018. Recently the stock has attracted increasing investor awareness driving the stock to strong gains in the quarter. Despite the significant increase in the stock, we still believe the stock offers an excellent value and has significant upside. We have trimmed our position to right-size it, but it remains one of our top holdings.

JYNT provides an excellent example of an underfollowed stock that we strive to find.

- **Underfollowed across the investor community, without built-up expectations.** After its IPO, JYNT opened too many corporate-owned stores too quickly and ran into a cash crunch driven by negative EBITDA as new stores ramped. With this misstep shortly after the IPO, the stock sold-off and quickly fell off investors' radar. Even now after a significant bounce off its lows and a stock price currently above its prior all-time highs, it only has a $200 million market capitalization which falls well below many institutional investors' focus.
- **Strong fundamentals. N**ew clinics reach a breakeven point in a quick six month time and generate ~20% same store growth rates, with around 35% EBITDA margins after five years. Rates are attractive versus the rest of the industry and generate recurring-like revenues from consumers.
- **Strong management with skin in the game and properly aligned interest.** New, experienced management team with significant financial incentives aligned with stock holders.
- **Significant operating leverage with little necessary capital expenditures.** The bulk of growth comes from franchising, so there is minimal investment necessary by the parent company. Operating expenses are generally fixed.

- **Significant/long-term fundamental upside opportunity as they penetrate a market.** Joint is the leader in out-of-pocket consumer-driven chiropractic clinics. At only around $22 per adjustment, Joint offers basic chiropractic back care at far lower prices than traditional providers. Out of pocket expenses are less than providers in-network with medical insurance. Joint has penetrated roughly 25% of their expected number of stores in the U.S, so opportunity for continued growth lies on the horizon.
- **Positive/breakeven cash flows with little risk of forced equity dilution.** The company has attained consistently positive EBITDA and is gradually investing in new operator-owned stores. Even looking back 12 months ago, before they had reached this stage, we were comforted in the knowledge that the company could sell more of their operator-owned stores in order to fund any cash crunch, and avoid equity dilution at low stock prices.
- **Significant stock upside based on near-term cash-flow generating power.** In the case of JYNT, we believe the stock could trade at 20x free cash flows, which would generate a price target in the mid $20's (looking two years into the future), while still having significant runway in front of them.

MIX Telematics (MIXT): MIXT is an underfollowed stock we are long.

MIX Telematics offers global fleet management, driver safety and vehicle tracking solutions using a recurring subscription model with high retention rates. The service goes beyond basic asset tracking, and offers solutions that improve efficiency, reduce costs, and meet compliance requirements…these include improving route and fuel efficiency, evaluating drivers' performance, efficiency and safety, and maintaining compliance with driving regulations.

Below are key reasons we like the stock:

- **Strong recurring fundamentals.** 85% of revenues are driven by recurring subscription fees, with high retention rates above 95% per year. Subscriptions generate gross margins at a high level close to 70%.
- **Management properly aligned with stockholders.** Management has significant stock compensation bonuses tied to fundamental performance. Management owns material amount of stock.
- **Significant penetration opportunity in front of them.** Just within MIXT's existing corporate customer base, they have only penetrated around 12% of those potential vehicles. And of the 200 million fleet vehicles operated globally, around 19% have been penetrated. so there's significant opportunity for growth.
- **New U.S. entry and lower price product may accelerate growth.** The company has only recently entered the U.S. market. MIXT recently launched a lower priced-point solution targeted at small fleets (MixNow), which is expected to be easy to implement and generate savings 5x its cost ($180 savings vs. $35 cost per month per vehicle).
- **Significant operating leverage.** MIXT has initial capital expenditure when signing a new vehicle under subscription. But hardware has a ten-year lifetime, making subscribers significantly more profitable over time, which will drive margins higher.
- **Underfollowed.** MIXT's operations are mostly outside the U.S., but MIXT trades as an ADR in the U.S. The company reports in African Rand, has a small market capitalization, and disappointed initially after its IPO. Despite strong and strengthening performance since then, the stock remains underfollowed with a market cap of roughly $370 million.

- **Significant stock upside based on near-term cash flow generating power.** Based on 16-20x free cash flows multiple looking 1-2 years out, we generate a price target of $25-40 (vs current price of $16.36). This includes the cost of capital expenditures to fund additional growth. If we look at cash flow power, if growth slowed and they had smaller capx, and then put a 16x multiple 1-2 years in the future, we generate a price target in the $40-50 range. Even if growth stopped, and we valued the stock using only a 14x free cash flow multiple, we get a price target in the low $20s. Further, a similarly sized telematics business was recently sold privately for $1 billion, which would imply a price $35 for MIXT at same valuation.

Conclusion

We are pleased that the year is off to a strong start. More importantly, we are pleased to see our gains driven by strong alpha performance. While we do see increasing signs of a potential economic slowdown and have thus reduced exposure levels below what is typical for us, we believe our portfolio is well positioned for continued robust gains despite any turbulence.

We recently attended the Santangel marketing conference in New York in April and will be attending the Context conference in California in June.

We recently evaluated and upgraded service providers. We have completed the transition to our new administrator, Theorem Fund Services and upgraded our prime broker to Jefferies last Summer.

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,

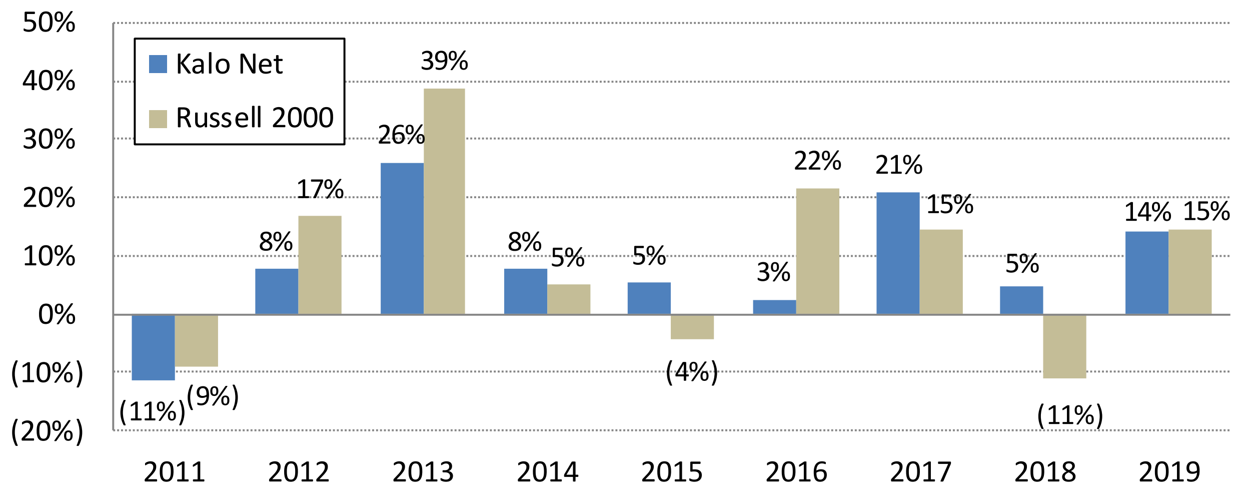
Steven D. Friedman, CFA
Founder and Chief Investment Officer

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

Historical Performance *

	Kalo LP	Russ. 2000	S&P 500
Total Net Return	**102.6%**	109.5%	150.5%
Compound Annual Net Return	**9.1%**	9.6%	12.0%
5 Year CAGR	**9.1%**	7.1%	10.8%
Annualized Alpha (gross)	**10.1%**		
5 Year Annual. Alpha (gross)	**11.7%**		
Annual Downside Volatility	**6.3%**	10.4%	6.9%
Max Drawdown	**(16.4%)**	(25.1%)	(16.2%)
Sharpe Ratio	**0.80**	0.61	1.00
5 Year Sharpe Ratio	**0.70**	0.47	0.93
Sortino Ratio	**1.42**	0.96	1.67
5 Year Sortino Ratio	**1.27**	0.71	1.50
Correlation to Russell	**68%**		87%
Correlation to S&P	**56%**	87%	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Incep.
2019	8.9%	4.2%	0.6%										**14.2%**	**102.6%**
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%)**



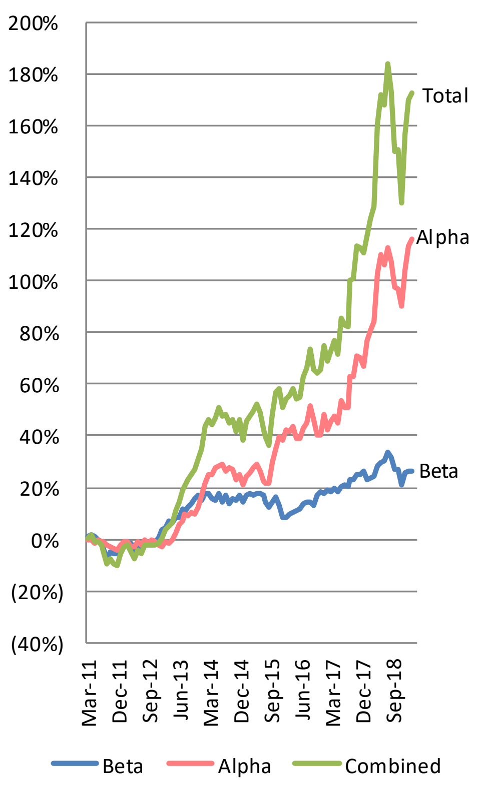
NOTE: The above returns are net of fees. Past performance is not a guarantee of future returns. Annual performance is through December 31 of each year. Returns since inception represent the return since the Fund inception March 1, 2011.

Assets Under Management

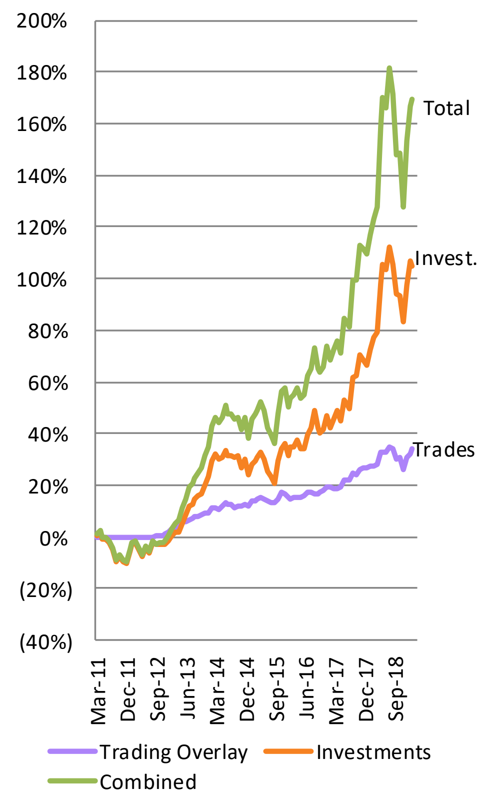
Kalo Capital Management, LLC AUM ($M)	
LP Fund	$15.7
Separately Managed Accounts	$7.8
Total AUM	$23.5

Historical Cumulative Gross Performance Breakdown

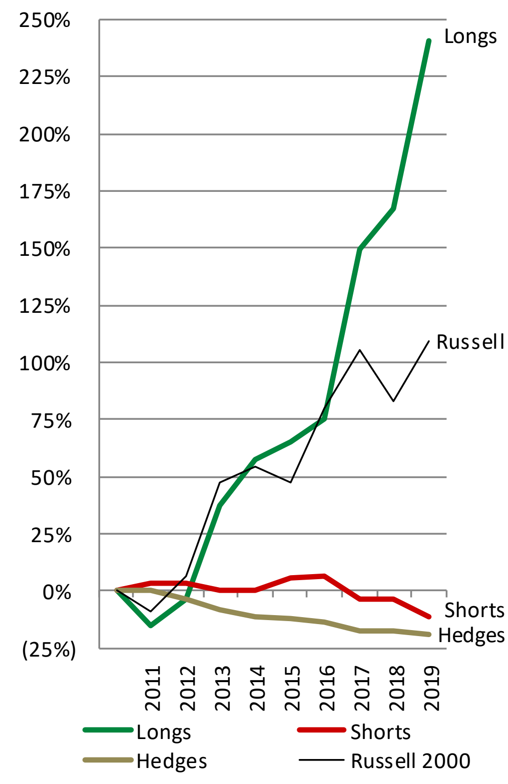
Alpha Drives Performance
10.1% Annualized Gross Alpha



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.

OVERVIEW OF KALO CAPITAL MANAGEMENT

Strategy

Kalo Capital is a long/short equity fund, focused on alpha-driven returns with controlled downside risk. We look for out-of-favor and overlooked companies for long positions, and over-hyped or deteriorating companies for short positions. We utilize proprietary systematic approaches to generate new ideas and independently analyze opportunities, seeking both longer term investments and shorter term trade opportunities. For the longer term investments we focus on business fundamentals, upcoming catalysts, and valuation based risk/reward. Shorter term trades are quickly executed in reaction to events. Our idea generation process revolves around internally finding stocks with upcoming fundamental catalysts that are not recognized in stock valuation. We internally research and analyze stocks based on fundamental valuation while considering market expectations and investor psychology. This drives sensitivity based price targets which frame our risk/reward expectations for each individual stock.

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 1-6%, and the portfolio's typical exposure ranges from +25% to +60% net with 60% to 100% gross long exposure. 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 a separately managed account Kalo PLUS strategy which utilizes leverage and increases all positions to 1.5x.

Transparency and Aligned Interests

Kalo believes it is crucial to have investors and management interests aligned. The majority of the Portfolio Manager's personal assets and significant family assets are invested. A significant portion of the fund is Partner or family capital, providing stability and aligning management and investor interests. Kalo utilizes an independent administrator and independent auditor.

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 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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