July 18, 2019

Quarterly Report - Kalo Capital Management, LP

Recent Performance

Net Performance	Q1 2019	Apr 2019	May 2019	Jun 2019	Q2 2019	YTD 2019	Since Sep 30, 2018	Trailing 2 Years (Jul'17-Jun'19)
Kalo Capital Mangement, LP	**14.2%**	**1.3%**	**1.2%**	**(0.6%)**	**1.9%**	**16.3%**	**0.5%**	**17.6%**
Russell 2000 (IWM)	14.6%	3.4%	(7.9%)	7.0%	1.9%	16.9%	(6.9%)	6.8%
S&P 500 (SPY)	13.5%	4.1%	(6.4%)	7.0%	4.2%	18.3%	2.3%	12.9%
Small Cap Momentum ETF (DWAS)	16.1%	1.0%	(3.0%)	9.1%	6.9%	24.1%	(6.2%)	13.3%
Gross Alpha Performance	14.0%	1.6%	2.1%	(0.5%)	3.2%	17.7%	8.1%	22.9%
Gross Beta Performance	4.0%	0.1%	(0.5%)	(0.1%)	(0.5%)	3.5%	(4.9%)	2.0%

In the second quarter, Kalo gained 1.9% net versus a gain of 1.9% for the Russell 2000. The stock market showed significant volatility through the quarter. After a pullback in May, the market rallied back in June essentially negating the May losses. (Specifically, the Russell 2000 lost 7.9% in May, only to rebound 7.0% in June).

We materially scaled back our net exposure and gross long exposure in March and maintained these lower exposure levels through Q2 (average Q2 net exposure of 5% and gross long exposure of 83%). Despite the low exposure levels, we generated gains driven by 3.2% gross alpha performance.

The current market tenor is mixed. The China trade war tensions continue and economic data is varied, but there has been excitement about the Fed shifting its focus toward lowering interest rates and the continued big picture view of TINA ("there is no alternative" to equity buying). Despite this upward force, we remain concerned by indications that the economy may be slowing. The dramatic stock market volatility since Q4 2018 we believe could be a prelude to worse times ahead for the market and economy.

Our current low exposure levels are designed for capital protection in an environment where we have lots of exciting long ideas, but recognize we are in a market near/at its highs with many broader market, economic, and geopolitical concerns. The portfolio is structured for protection: if markets are weak, we have significant shorts for protection; while if markets are strong, our longs will outperform and keep pace with or beat the shorts. The second quarter demonstrated this perfectly as we had positive absolute performance in the weak May, and almost broke even in the strong June.

Current View Ahead

Our current delta-adjusted exposure level is 86% long / 72% short for a positive 14% net. This level is low for us historically (in fact we rarely go below 20% net exposure, but we have been at similar levels since March 2019).

Why do we remain conservatively positioned? Pretty much the same reasons we gave in our Q1 letter, which we reiterate here again. After several years of feeling the economy was growing robustly, we see indications that economic growth is slowing. The Federal Reserve cites slightly slower growth conditions in the US, as well as slowed global growth. We are hearing an increasing number of CEOs comment about slowing global conditions (some tied to China/US tariffs uncertainities). Last quarter we mentioned that the recent stock market volatility was unhealthy and concerning. We continue to feel this way after the see-saw action in the markets in Q2. Consequently, we feel motivated to keep our exposure levels in check.

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

Q2 2019 Review

In Q2 2019, our 1.9% net gain was led by alpha performance across many of our long postions. The Fund gained roughly 6.6% gross from long positions and lost 4.5% gross from short exposed positions. Our longs outperformed versus the Russell 2000 as the Fund's longs grew 8.0% on average vs. the Russell's 1.9% rise. The shorts/hedges grew more than the index as well, rising 5.8% on average, hurting performance. Bottom line: gross alpha performance of positive 3.2% drove the performance in the quarter.

Kalo Capital Management LP Net Performance **1.9%**

	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	659	83%	8.0%
Shorts/Hedges	(446)	-77%	5.8%
Russell 2000 (IWM)			1.9%

Alpha (Gross performance from stock selection)	3.2%
Beta (Gross performance from exposure)	-0.5%

Insight Into How We Think About Stocks

Below is an example of stock-specific commentary to give insight into how we think about stocks.

QUOTIENT TECHNOLOGY (QUOT)

Quotient is a stock we are long. Quotient offers revenue performance management solutions to consumer packaged goods companies (CPGs) by delivering targeted media advertising and promotions to consumers.

Below are the key reasons we like the stock:

Unique retailer relationship creates a moat: Quotient has established relationships with key retailers representing roughly 2/3 of U.S. retail spending (Albertson's, Walgreens, CVS, etc). These deals are mostly exclusive and 3-5 years in length. Through consumer loyalty shopping cards at these retailers, Quotient attains consumer purchasing data and then uses this data to efficiently target promotions and media ads for the CPGs.

Significant benefit for CPG customers: Quotient's solutions generate up to $6 ROAS (return on ad spend) for CPG companies. Quotient currently helps with a small fraction of the promotion/advertising budget dollars of the large CPGs it works with (including Clorox, Coca-Cola, P&G, Pepsi, Hormel, General Mills, Unilever, Nestle, Tyson, J&J, Kellogs, L'Oreal)

Strong recurring fundamentals: Quotient's revenues are based on CPG advertising budgets which can be lumpy quarter to quarter but are consistent on an annual basis. Quotient generally achieves a 120% dollar-based retention rate with its CPG customers.

New products coming: Targeted coupons printed on receipt at checkout will launch in the coming months. Sponsored search recently launched whereby CPGs can pay for search results placement on retailer sites.

Revenue growth to accelerate: Management has been shifting how they charge CPGs to be driven by the CPG ROIs. We believe this model will reduce the adoption barriers for the CPG's and lead to an acceleration in Quotient's growth.

Shareholder friendly: Management recently implemented a $60 million stock buyback program (6% of the current shares outstanding).

Significant upside to stock: Using a 20x EV/FCF 2020-2021 multiple (including stock-based compensation as a cash expense and paying taxes) generates a price target of $17-23, roughly 50-100% up from its current price. And it could easily be argued to use a higher multiple or look further out to the future as they continue to drive growth. Further, QUOT has significant NOLs to offset taxes for years.

Conclusion

We continue to find new exciting long ideas and are optimistic in our ability to continue generating strong alpha. We continue to keep exposure levels in check as we remain uncertain about the next steps for the market, that sits at/near its all-time highs.

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.

LEGAL DISCLAIMER

This document is intended for information purposes only. It is not an invitation or offer to purchase interests in any Fund. Any representation to the contrary is not permitted. This commentary does not constitute an offer to sell or a solicitation of an offer to buy securities and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product.

Any views presented on individual stocks or other financial instruments are intended for informational purposes only. Kalo Capital Management ("Kalo") undertakes no obligation to correct, update, or revise the views presented or to otherwise provide any additional materials. Kalo may hold a position in any companies discussed and may change its views about or investment position at any time. Kalo disclaims any obligation to notify the market of any such changes. Views may include forward-looking statements, estimates, projections, and opinions, which may prove to be substantially inaccurate and are inherently subject to significant risks and uncertainties beyond Kalo's control. Although Kalo believes its views presented here are substantially accurate in all material respects, Kalo makes no representation or warranty, express or implied, as to the accuracy or completeness, and Kalo expressly disclaims any liability (or any inaccuracies or omissions therein). Potential investors and others should conduct their own independent investigation and analysis of any views and of the companies mentioned.

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

Any Fund or investment involves risk. Potential investors must familiarize themselves with the offering materials related to such investment and must meet certain investment sophistication levels in order to make such investments and must be able to fully absorb the risk associated with such investments. The Offering Memorandum for the Fund and related Subscription Agreement and Limited Partnership Agreement will be made available to those who demonstrate the capacity to evaluate the risks and merits of this investment.

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.

KALO CAPITAL MANAGEMENT, LP 157 BROAD STREET, SUITE 305, RED BANK, NJ 07701
TEL: (732) 860-5256 FAX: (877) 860-6238 EMAIL: SFRIEDMAN@KALOCAP.COM