

July 13, 2020

Quarterly Report - Kalo Capital Management, LP

Net Performance	Apr'20	May'20	Jun'20	Q1'20	Q2'20	YTD 2020	Trailing 2 Year (Jul'18-Jun'20)
Kalo Capital Management, LP	10.8%	4.2%	3.4%	(11.8%)	19.4%	5.3%	5.4%
Russell 2000 (IWM)	13.8%	6.6%	3.4%	(30.6%)	25.5%	(12.9%)	(9.9%)
S&P 500 (SPY)	12.7%	4.8%	1.8%	(19.4%)	20.2%	(3.2%)	18.2%
Small Cap Momentum ETF (DWAS)	13.4%	10.9%	4.6%	(28.6%)	31.5%	(6.2%)	(0.7%)
Gross Alpha Performance	7.2%	3.9%	2.6%	4.9%	14.6%	20.2%	27.0%
Gross Beta Performance	3.6%	0.8%	1.7%	(15.2%)	6.2%	(9.9%)	(11.9%)

Performance

In the second quarter, Kalo gained 19.4% net versus a 25.5% gain for the Russell 2000. We regained our losses from the first quarter, bringing year-to-date net performance to +5.3% vs -12.9% for the Russell 2000.

The stock market rebound that started in late March continued through Q2, despite a handful of pullbacks. Many investors significantly reduced exposure levels in Q1 due to worries about the macro economy and contagion from Covid. Aggressive Fed stimulus measures, indefinitely low interest rates, and retail investors sitting home with no sports and no gambling have created a perfect storm for market strength and momentum chasing. This has led to a massive chase into leading Nasdaq stocks, with little to no regard for valuations. Despite the abundant risks, these leading Nasdaq stocks have ramped to all-time highs in many instances, while the broader market slowly works its way back to early 2020 levels before the stock market fall. I would highlight that the chasing of these leading Nasdaq stocks is reminiscent of 1999 internet stocks (the run up before the eventual dot-com meltdown in Spring 2000).

As is often the case, the smaller/less followed names that we like to own often gain momentum with a lag to the well-followed leading names. Thus, we are cautiously optimistic that much of this investing enthusiasm that has driven these leading names to all-time highs will shift towards those stocks at more reasonable valuations leading to material gains for our portfolio. Regardless of future market direction, we remain confident that over time our holdings will outperform the broader market.

From a broader economy standpoint, we are still extremely concerned. Covid cases and fear are still rampant. While we heavily lean towards the viewpoint that Covid is manageable, we also believe the current political environment and media-exaggerated fears heighten the negative impact Covid is and will have on the economy. We are also concerned that job losses, dramatically slowed consumer activity, and rampant Fed spending will have a negative impact for quite some time.

Looking Ahead

The questions around Covid and society's return to normalcy continue. While there are still many unknowns, we are encouraged that fatality rates appear significantly lower than feared and therapies are emerging that prove effective. Many businesses are adapting and learning to succeed in this current Covid environment.

Despite our cautious optimism around Covid, we are much more hesitant about the political environment and its handling of rules/requirement surrounding Covid, which frequently seem to be more politically motivated and inconsistent.

Current Positioning

Despite the strong rally in leading Nasdaq stocks, our long portfolio has several stocks far below their levels earlier in the year. We have shifted further into companies where we feel the Covid-driven risks are small for their fundamental business (or in some cases even a positive). Our conviction has grown across many names (both existing and new positions) as businesses have adapted to the current Covid environment. We continue to run with a lower than typical gross exposure level, matched with a typical net exposure level (currently 74% long / 34% short, 40% net exposure).

Q2 2020 Review

In Q2 2020, we gained 19.4% net. Our longs, on average, were up 41% and our shorts moved similarly to the overall market, up 25%. Our overall net exposure averaged 31% and has recently been running at the typical 40%.

Kalo Capital Management LP Net Performance			19.4%
	Bps Gain/Loss	Avg Exposure	Average Performance
Longs	3,067	75%	40.7%
Shorts/Hedges	(1,107)	-44%	25.3%
Russell 2000 (IWM)			25.5%
Alpha (Gross performance from stock selection)			14.6%
Beta (Gross performance from exposure)			6.2%

Conclusion

We appreciate your confidence in us and will continue to protect and grow your assets. If any like-minded investors are interested in investing, please contact us.

We will close with the same positive thoughts as last quarter: Hopefully a vaccine is coming, improved treatments methodologies for Covid-19 and other viral pathogens will continue to evolve, and the world will soon return to the new normal.

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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