July 14, 2021

Quarterly Report - Kalo Capital Management, LP

Net Performance	Apr'21	May'21	Jun'21	Q1'21	Q2'21	YTD 2021		Trailing 2 Year (Jul'19-Jun'21)
Kalo Capital Management, LP	**(4.9%)**	**(3.0%)**	**(0.8%)**	**20.0%**	**(8.5%)**	**9.8%**		**51.3%**
Russell 2000 (IWM)	1.8%	0.3%	1.9%	12.9%	4.0%	17.4%		51.2%
S&P 500 (SPY)	5.3%	0.7%	1.9%	6.4%	8.0%	14.9%		50.7%
Small Cap Momentum ETF (DWAS)	0.1%	2.3%	3.2%	13.0%	5.6%	19.3%		67.2%
Gross Alpha Performance	(6.6%)	(3.4%)	(1.6%)	18.3%	(11.3%)	4.9%		54.6%
Gross Beta Performance	0.9%	(0.1%)	0.8%	6.6%	1.6%	8.4%		12.1%

Performance

In the second quarter, Kalo lost 8.5% net versus a 4.0% gain for the Russell 2000, bringing our year-to-date performance to +9.8% vs. +17.4% for the Russell 2000.

Through Q2, and especially since mid-June, the U.S. is seeing a resurgence in life getting back to normal. The lifting of lockdowns is leading to companies being able to travel and visit potential customers again, providing a kickstart to their marketing practices. This resurgence is still in the early stages, and in some areas still hasn't really started (Canada in particular is still quite locked down). However, we are seeing more and more signs that business is picking up, which we expect to lead to better performance for our portfolio.

Since March 2021, microcap stocks have been quite out of favor, and have broadly seen significant pull-backs. This is not readily apparent when looking at indices like the Russell 2000 (despite being a small-cap index, its performance is heavily skewed toward relatively larger small-cap companies, and benefits from ETF-driven money flows). Across the true micro-cap landscape on which Kalo focuses ($100 million - $1 billion market cap), the pullback has been significant. However, we anticipate that the underlying fundamentals brewing across our portfolio will result in stronger performance as future catalysts play out. As a result, we are opportunistically taking advantage of lower stock prices by adding to certain names in our portfolio, as well as finding new stocks. This is a common practice for us, and we expect it to lead to enhanced alpha performance over time.

Our gross long exposure continues to run slightly higher than typical driven by an abundance of individual ideas at excellent risk/reward valuation levels. This is balanced with hedges and a typical net exposure level overall.

Investment Spotlight: SRAX, Inc. (SRAX)

SRAX is a digital marketing and consumer data management tech company. They have developed a SaaS offering called Sequire that helps publicly traded companies track investor buying and selling behaviors and manage different elements of their investor relations across various marketing channels. Through Sequire, companies can track share changes and patterns, connect with investor contacts, analyze market makers, and manage warrants, all from within the Sequire operating system. SRAX has also built an extensive database of retail and institutional investors that it utilizes to offer targeted investor marketing across various channels (CNBC, StockTwits, Yahoo, etc.). Over 30% of Sequire customers also pay for this data-driven targeted display advertising.

Since its launch in 2019, Sequire has been rapidly adopted, with its user base now numbering over 200 companies and revenue guidance for this year in the $25-$27M range, up from only $7M last year. The stock's underlying under-the-radar growth story has been masked due to having a cash burning subsidiary (BIGtoken) which was recently spun off. With a cleaner income statement and cap structure, we believe investors will begin to appreciate Sequire's rapid growth as its innovative offering has the potential to grow to over 1,000 subs in the next few years, with SRAX growing into 30%+ EBITDA margins in relatively short order as companies continue to adopt the product.

Conclusion

We continue to find overlooked, fundamentally disruptive stocks that we expect to rise over time regardless of the broader markets and economy.

We are also excited to announce that we have moved into new office space in the Carmel Valley area of San Diego. We welcome you to come visit us when you're in town.

We also want to announce that Tony Alaimo will be moving on from Kalo Capital. Tony has accepted a job with a firm in Maine, where he is from originally. We wish Tony all the best in his new endeavor.

We also are excited to announce that Ryan Darrohn has recently joined the Kalo team here in San Diego. Ryan is joining us from Sasco Capital, is a Columbia Business School graduate, and former Air Force Acquisitions Officer. We invite you to check out his full bio on our website.

We are honored to welcome our recent new investors. To all investors, we appreciate your confidence in us and will continue to strive to protect and grow your assets. We encourage you to share this newsletter with your colleagues who may be interested in investing with us in the future.

Please feel free to call to discuss anything.

Sincerely,

Steven D. Friedman, CFA
Founder and Portfolio Manager

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

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