

**TAKUMI CAPITAL LLC**

**Part 2A of Form ADV: *Firm Brochure***

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**This brochure provides information about the qualifications and business practices of Takumi Capital LLC (“Takumi Capital”). If you have any questions about the contents of this brochure, please contact the Adviser at 970-294-4145 or email [schhikara@takumi-capital.com](mailto:schhikara@takumi-capital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Takumi Capital LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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**Item 2            Material Changes**

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This ADV Part 2 is an annual amendment to Takumi Capital's brochure. There are no material changes to this brochure since our last annual amendment which occurred on March 30, 2018.

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#### **Item 4            Advisory Business**

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Takumi Capital LLC ("Takumi Capital" or "the Adviser") was formed in November 2010 as a Delaware Limited Liability Company and began providing advisory services in September 2016. The principal owner is Sudhir Chhikara.

Takumi Capital provides discretionary sub-investment management services to a managed account funded by a private investment fund sponsored and advised by a sole client (this firm and any applicable affiliates are referred to collectively as "the Client"). Takumi Capital manages this account pursuant to the terms, guidelines and restrictions provided by the Client in an investment management agreement ("IMA"). Takumi Capital's investment advisory services are provided exclusively to the Client, and the Adviser does not currently intend to seek any additional clients.

As of February 28, 2019, regulatory assets under management total approximately \$100,000,000, which is managed on a discretionary basis.

#### **Item 5            Fees and Compensation**

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Given Takumi Capital's limited business model, there is no standard fee schedule. The Adviser receives a negotiated management fee monthly in advance and is eligible to receive an annual performance fee subject to various conditions and offsets as set forth in the IMA with the Client.

In connection with the Adviser's management services, the managed account will incur brokerage and other transaction expenses. Please see Item 12 below for more information.

#### **Item 6            Performance-Based Fees and Side-By-Side Management**

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As noted above in Item 5, Takumi Capital is eligible to receive a performance fee for its services. Because the Adviser does not manage other accounts that feature only an asset-based fee, it has no conflicts related to side-by-side management.

Performance based fees can provide an incentive to take excessive risks. Per the IMA, the trading discretion granted to Takumi Capital is subject to the strategy and risk parameters provided by the Client. Takumi Capital therefore cannot act independently with respect to decisions on the amount of investment risk taken in the managed account(s).

## Item 7           Types of Clients

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Takumi Capital provides discretionary sub-investment management services exclusively to a managed account funded by a private investment fund sponsored and managed by the Client. Additional managed accounts for the Client may be opened in the future at the Client's sole discretion.

## Item 8           Methods of Analysis, Investment Strategies and Risk of Loss

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### **METHODS OF ANALYSIS**

#### ***Technical & Statistical Quantitative Analysis***

Takumi Capital uses quantitative models to construct its investment portfolios. Each portfolio is constructed by predicting an individual stock's return. These predicted returns are then fed into a optimization process which includes constraints on market risk factors, position limits, and sector and portfolio exposures.

#### ***Risks for Quantitative Analysis***

Quantitative analysis methods rely on the assumption that the companies whose securities we purchase and sell, and the publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information. While we continuously review and refine, if necessary, our investment approach, there may be market conditions where the quantitative investment approach performs poorly. Despite the proprietary nature of quantitative equity models, their effectiveness can dissipate over time as a result of the independent discovery of similar strategies by academics and practitioners and as the market becomes more efficiently priced. Technological advances in computing and the Internet have made the processing and dissemination of vast amounts of financial data much easier. As a result, the proprietary components of any model are constantly threatened with discovery and publication, which will cause their investment value to be potentially arbitrated away

### **INVESTMENT STRATEGY**

#### ***Statistical Arbitrage***

The Adviser's strategy seeks to achieve superior risk-adjusted returns by employing a statistical arbitrage strategy in highly liquid U.S. equities. Utilizing trading models based on advanced statistical

techniques, the strategy seeks to capture short and medium-term price inefficiencies. Identifiable systematic market risks are sought to be hedged out of the portfolio by means of a risk model. The strategy may employ leverage as directed by the Client.

### *Frequent Trading*

The Adviser generally trades securities with the idea of buying or selling them quickly. This is done in an attempt to take advantage of short-term price inefficiencies in equity markets. Because the strategy involves more frequent trading than does a longer-term strategy, there will generally be increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains. Because of these costs, frequent trading can affect overall investment performance.

### *Short Sales*

The Adviser seeks to realize additional gains or hedge investments through short sales. Short sales are transaction in which a portfolio sells a security which it does not own, in anticipation of a decline in the market value of that security. To complete such a transaction, the portfolio must borrow the security to make delivery to the buyer, it is then obligated to replace the security borrowed by purchasing it at the market price at or prior to the time of replacement. The price at such time may be more or less than the price at which the security was sold by the strategy.

### *Leverage*

The Adviser employ's leverage. This practice significantly increases a strategy's market exposure and its risk. When a portfolio has borrowed money for leverage and its investments increase or decrease in value, the portfolio's net asset value will increase or decrease more (possibly by multiples, depending upon the degree of leverage employed by the portfolio at such time) than if it had not borrowed money. In addition, the interest the portfolio must pay on borrowed money will reduce the amount of any potential gains or increase any losses.

## **MATERIAL RISKS**

Investing in securities involves risk of loss that the client should be prepared to bear. There is no assurance that an investment will provide positive performance over any period of time. Past performance is no guarantee of future results and different periods and market conditions may result in significantly different outcomes. The material risks presented by the strategy and the securities we invest in are set forth below.

*Stock market risk.* The chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.

*Large-cap stock risk.* The chance that returns from large-capitalization stocks will trail returns from the overall stock market. Large-cap stocks tend to go through cycles of doing better—or worse—than

the stock market in general. These periods have, in the past, lasted for as long as several years which is the chance that returns from large-capitalization stocks will trail returns from the overall stock market. Large-cap stocks tend to go through cycles of doing better—or worse—than the stock market in general. These periods have, in the past, lasted for as long as several years.

*Mid-cap stock risk.* The chance that returns from mid-capitalization stocks will trail returns from the overall stock market. Historically, mid-cap stocks have been more volatile in price than the large-cap stocks that dominate the overall market, and they often perform quite differently.

Mid-cap stocks tend to have greater volatility than large-cap stocks because, among other things, medium-size companies are more sensitive to changing economic conditions.

*Small-cap stock risk.* The chance that the stocks of small-capitalization companies often experience greater price volatility than large- or mid-sized companies because small-cap companies are often newer or less established than larger companies and are likely to have more limited resources, products and markets. Securities of small-cap companies are often less liquid than securities of larger companies as a result of there being a smaller market for their securities.

*Short sale risk.* Short sales lose when the stock price rises. As such, the market risk is unlimited in that the increase in the market price of the security sold short is unlimited. In addition, the amount of any gain will be decreased, and the amount of any loss increased, by the amount of any premium, dividends, interest or expenses we may be required to pay in connection with a short sale.

*Borrowing and Leverage.* This practice, depending upon the extent to which it is employed, may significantly increase a strategy's market exposure and its risk. When a strategy has borrowed money for leverage and its investments increase or decrease in value, a portfolio's net asset value will increase or decrease more (possibly by multiples, depending upon the degree of leverage employed by the portfolio at such time) than if it had not borrowed money. In addition, the interest the portfolio must pay on borrowed money will reduce the amount of any potential gains or increase any losses. The extent to which a portfolio will borrow money, and the amount it may borrow, will depend on market conditions, interest rates and Client direction.

*Economic Risk.* Changes in economic conditions, including, for example, interest rates, inflation rates, political and diplomatic events and trends, tax laws and innumerable other factors, can affect substantially and adversely the business and prospects of a strategy.

*Investment Competition.* The market for some types of securities is highly competitive. We will be competing for investment opportunities with a significant number of financial institutions, other private funds as well as various institutional investors. Many of these competitors are larger and have greater financial, human and other resources than we have and may in certain circumstances have a

competitive advantage over us. As a result of this competition, there may be fewer attractively priced investment opportunities, which could have an adverse impact on our ability to meet an account's investment objective or the length of time that is required for an account to become fully invested.

*Counterparty Creditworthiness.* The Adviser may trade securities on a principal basis in the over-the-counter market and, therefore, may be subject to the risk of insolvency, bankruptcy or delivery failure of the transactions counterparty.

*Institutional Risk and Custodial Risks.* The institutions, including brokerage firms and banks, with which the Adviser (directly or indirectly) does business, or to which securities have been entrusted for custodial and prime brokerage purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of an account. Brokers may trade with an exchange as a principal on behalf of an account, in a "debtor-creditor" relationship, unlike other clearing broker relationships where the broker is merely a facilitator of the transaction. Such broker could, therefore, have title to assets of the account (for example, the transactions which the broker has entered into on behalf of the account as principal as well as the margin payments which the account provides). In the event of such broker's insolvency, the transactions which the broker has entered into as principal could default and the account's assets could become part of the insolvent broker's estate, to the detriment of the account. In this regard, account assets may be held in "street name" such that a default by the broker may cause the account's rights to be limited to that of an unsecured creditor. To the extent the Client has directed the Adviser's use of custodians and/or prime brokerages, the Client assumes the risks related to such direction.

*Foreign Securities.* The Adviser may invest in American Depositary Receipts ("ADRs"), which are U.S. dollar-denominated equity and debt securities of foreign issuers or directly in foreign securities. Interest or dividend payments on such securities may be subject to foreign withholding taxes. Investments in foreign securities involve considerations and risks not typically associated with investments in securities of domestic companies, including possible unfavorable changes in currency exchange rates, reduced and less reliable information about issuers and markets, different accounting standards, illiquidity of securities and markets, local economic or political instability and greater market risk in general.

*Dependence on the Adviser.* The Client is dependent on the ability of the Adviser to manage its fund's assets. Takumi Capital is dependent on the skill, judgment and expertise of the sole principal. Loss of the principal would impair the ability of Takumi Capital to manage the account, and the consequence to the Client could be material and adverse.

## **Item 9 Disciplinary Information**

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Takumi Capital has no legal or disciplinary events to disclose.

## **Item 10 Other Financial Industry Activities and Affiliations**

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Takumi Capital has no other current financial industry activities and/or affiliations to disclose.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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Takumi Capital has established a Code of Ethics (the “Code”) which sets forth the standards of conduct expected of the Adviser to require compliance with the federal securities laws, and to uphold its fiduciary duty. The Code requires that the Adviser conducts business at all times consistent with its status as a fiduciary to its client(s), and uphold affirmative duties of care, loyalty, honesty and good faith in connection with all of our activities.

The Code also requires that the Adviser avoid any actual or apparent conflicts of interest in personal and business activities. The Adviser has an obligation to conduct the firm’s business in an honest and ethical manner including the ethical handling and disclosure of any actual or apparent conflicts of interest between personal and business interactions.

When engaging in personal securities transactions, the Adviser is required to place client interests first and avoid any actual or potential conflict of interest. To this end, the principal is not permitted to transact in securities that are held by a client account other than Exchange Traded Funds (ETFs).

The Code requires the principal to provide the Chief Compliance Officer with initial and annual holdings reports, and quarterly transactions reports or is required to have duplicate copies of brokerage statements provided to the Chief Compliance Officer, who monitors securities transactions for compliance with the Code. The principal is also generally prohibited from participating in initial public offerings and must receive prior approval to invest in any private placement.

The Adviser will provide a copy of the firm’s Code of Ethics to any client or prospective client upon request.



## **Item 12            Brokerage Practices**

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Takumi Capital has agreed to place trades with the broker-dealer chosen by the Client. Under the IMA, any broker-dealer the Adviser selects is subject to the prior consent of the Client. Takumi Capital does not expect to select broker-dealers on our own given our business model. The Client reviews, approves and monitors the prime brokers, executing broker-dealers and counterparties. Because we permit directed brokerage, the applicable guidance requires us to disclose that directing brokerage may cost clients more money because we can't aggregate client orders to reduce transaction costs or negotiate more favorable commission rates. As a practical matter, these risks do not exist in our business model and we are comfortable with the direction provided by the Client.

### ***Research and Other Soft Dollar Benefits***

It is Takumi Capital's policy not to use commissions generated from trades for research and brokerage services, generally known as "soft dollars". Occasionally, the Adviser may receive unsolicited research from brokers. The Adviser does not use any unsolicited research, and receipt of such research does not influence our decision to use the broker providing the research.

### ***Aggregation***

Given our limited business model with only one Client, aggregation of purchase and sale transactions for multiple clients is not currently an issue. Where a client account uses various model/strategies, it is possible that each strategy will signal the same or opposing transactions in a holding common to the model/strategy. Each strategy order is placed separately in the market. The Adviser does not believe that aggregating such orders enhances its quantitative, model-based approach to investing. As a result, such orders could compete for execution quality, price or timing. However, because the account is for a single Client and single broker-dealer as directed by the Client, the overall risk is minimal.

The Adviser does not invest in IPOs or other offerings that are limited or scarce.

## **Item 13            Review of Accounts**

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Managed account transactions and positions are reviewed on a daily basis by the Adviser. Takumi Capital, in its best judgement and best effort, is continually monitoring the portfolio models in an ongoing effort to seek to maximize performance.

The Adviser will provide reports to the Client on a periodic basis as requested by the Client.

**Item 14      Client Referrals and Other Compensation**

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The Adviser does not receive any economic benefits from third parties for providing advisory services to the Client. We do not directly or indirectly compensate any person for client referrals.

**Item 15      Custody**

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The Adviser does not have custody and is expressly prohibited under the IMA from having custody, of any Client funds or securities.

**Item 16      Investment Discretion**

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The IMA between Takumi Capital and the Client sets forth our discretionary investment authority, which is subject to the strategy and risk parameters provided by the Client.

**Item 17      Voting Client Securities**

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The Adviser does not accept authority to vote proxies.

**Item 18      Financial Information**

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The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to the client and has not been the subject of a bankruptcy proceeding.