

## **Qato Capital Pty Limited**

**Level 6, 100 Collins Street, Melbourne, Victoria, 3000, Australia**

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**CRD: 282203**

**Website: <http://qatocapital.com/>**

This Brochure provides information about the qualifications and business practices of Qato Capital Pty Limited. If you have any questions about the contents of this Brochure, please contact us at +613 8672 5010 or by email [at.enquiries@qatocapital.com](mailto:at.enquiries@qatocapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Registration of an investment adviser does not imply that Qato Capital Pty Limited or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about Qato Capital Pty Limited is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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This is Qato Capital Pty Limited's initial brochure filing. Therefore there are no material changes applicable at this time. Material changes relating to the information contained in this brochure will be included in subsequent filings.

**Item 3: Table of Contents**

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**Item 4: Advisory Business**

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**Our Firm**

Qato Capital Pty Limited (“Qato Capital”, “we” or the “Firm”) is a privately owned Australian Proprietary Limited Company incorporated in September 2014. Qato Capital operates under the Australian Securities and Investments Commission’s (“ASIC”) licencing regime and is registered with the SEC as a registered investment adviser. The Firm provides advisory services to privately pooled investment vehicles (the “Funds”). The Funds are exempt from registration under the Investment Company Act of 1940. The Firm may also be engaged as the investment adviser for separately managed accounts (“SMAs” and together with “Fund” – “Clients”).

**Principal Owners**

The Firm is directly owned by Qato Investment Managers Pty Ltd (acting as a trustee of Grand Cru Trust), Larkfield Funds Management Pty Ltd (acting as a trustee of Larkfield Managed Funds Trust) , Evolucion (Vic) Pty Ltd (acting as a trustee of Activo Trust) and Amanda Truda (acting as trustee of Red Hill Trust).

**Types of Services Offered**

The Firm provides investment advisory services to the Funds based on specific investment objectives and strategies. The Funds’ offering documents (as amended and supplemented from time to time) set forth the investment guidelines and/or the types of investments in which the assets of the Funds may invest.

The performance of the Funds will be reported, fees will be calculated, and all subscriptions and redemptions will be transacted, in US dollars (USD) or in Australian dollars (AUD), depending on the base currency of the Fund.

**Ability to Tailor Services and Impose Positions**

The Firm provides investment advisory services to the Funds based on the specific investment objectives and strategies of the Funds themselves and not individually to investors in the Funds (the “Investors”). However the Funds may from time to time enter into side letter agreements or other similar agreements (“Side Letters”) providing investors with additional and/or different rights and benefits. Directors may also reduce the minimum subscription amounts in consultations with the Firm, subject to requirements by applicable laws.

**Item 5: Fees and Compensation****Management Fee**

The fees applicable to each Client are set forth in detail in each Fund’s offering documents or SMA’s Investment Management Agreement (“IMA”). The Firm receives an annual management fee up to 1.8% per annum in respect of the net asset value (“NAV”) of the Funds without accrual of unearned management fees and performance allocation (“Management Fee”). The Management Fees are generally paid monthly in arrears.

The Management Fee may be varied by agreement in writing between the Fund and the Firm and the Firm may rebate or waive any Management Fee, in whole or in part, at any time, including during the winding up of the Fund's business.

The Funds may from time to time enter into Side Letters providing for changes in management fees and performance allocation.

The Funds pay for organizational and initial offering expenses as well as ongoing operating expenses, including but not limited to, accounting, auditing, tax preparation, legal, administration, research, and trading costs. The Funds may incur brokerage and other transaction costs.

The Funds may also incur brokerage and trading fees, other transaction costs, research fees and administrator's fees. Fund expenses are accrued daily and settled monthly.

Clients with SMAs may or may not pay the same Management Fee as stated above.

### **Brokerage Fees**

The Fund is responsible for paying any and all brokerage fees including, without limitation, commissions, annual fees, brokerage charges, bank charges, registration fees, clearing and settlement charges, taxes and/or duties.

### **Expenses of the Initial Contribution Period**

The Funds pay the expenses of organizing the Funds by reimbursing the Firm. These expenses are exclusive of the Firm's operating expense reimbursements.

### **Item 6: Performance-Based Fees**

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The pro-rata performance allocation fee ("Performance Allocation") for all share classes is charged, subject to a high water mark, in an amount equal up to 20% per annum of the increase in NAV attributable to investment performance. Performance Allocation is calculated on a monthly basis and paid annually in arrears.

Clients with SMAs may or may not pay the same Performance Allocation as stated above.

### **Item 7: Types of Clients/ Eligible Investors**

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Qato Capital provides investment advice to Clients.

The minimum initial investment amount varies depending on the Client and is in the range of AUD 250,000 and USD 1,000,000, depending on the base currency of the Fund. In certain circumstances, minimum investment amounts may be amended by directors in consultation with the Firm.

All SMA Clients will be required to enter into a separate management agreement with the Firm. The Firm may require a minimum account size to be determined on a case by case basis.

**Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

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**Investment Philosophy**

The investment philosophy of Qato Capital is underpinned by its investment team's long held investment beliefs:

- in the importance of a systematic process which is objective, replicable and consistent, seeking to eliminate decisions driven by emotion, lack of discipline and subjectivity;
- that share prices are driven by market participants focusing and reacting to constantly changing fundamental financial factors;
- that pinpointing the underlying fundamental changes in a business, through analysing the financial fundamental factors, allows an understanding of why investors buy and sell particular securities, leading to a greater possibility of producing higher risk-adjusted returns over the longer term; and
- that stringent risk management is integral when seeking to preserve capital.

**Investment Strategy and Objective**

The Firm will make investment decisions based on the investment objectives and strategy for the Funds as described in the Funds' offering document or in an SMA's IMA. The Firm will attempt to construct a market neutral portfolio of equities, both long and short, which are derived from constituents of the S&P / ASX100 Index. The positions will be comprised of either total return swaps or equities traded on cash. The Client portfolios are also permitted to hold equities as well as cash and cash equivalents.

The Client portfolios are managed via an objective, consistent and replicable process utilising Qato Capital's proprietary 'Q-Score' methodology. The Q-Score process is fundamentally based on evaluating improving and deteriorating fundamentals within each business from a variety of financial metrics, such as valuation, risk, quality, earnings & price.

The Firm's principal investment objectives for the Clients are:

- over a 3-5 year period, seek to:
  - outperform the Benchmark; and
  - generate alpha via uncorrelated returns and a negative beta to equity markets.

The market neutral portfolios seek to profit from both long and short investments, while limiting net exposure to overall share market movements. In a market neutral structure, the returns reflect the value added by the Firm through security selection, with little impact from underlying movements in the share market. The Firm believes that adopting a market neutral approach helps to preserve capital, especially in falling markets. As many other portfolios track market indices and are highly correlated with each other and global markets, a market neutral portfolio can be valuable in diversifying investor risk within a broader investment portfolio.

The Firm will endeavor to target low net exposures dependent on its systematic risk based measures. In practice the number of positions and the weighting of each position will be dependent on the Firm's ability to:

- transact with regards to liquidity;
- enter into swap arrangements; and
- manage its risk within its own systematic risk control framework.

### **Risk Factors**

The investment strategies employed by the Firm are speculative, and are not intended as a complete investment program. These strategies are suitable only for sophisticated investors who can assume the risks of losing a substantial part of their capital. Prospective investors should carefully evaluate the following considerations, which set forth some, but not all, of the risks before making an investment.

**Investment Manager Risk** - The success and returns of the Client portfolios depends upon the retention of the Firm as manager and the retention of key personnel within the Firm with responsibility for managing the Client portfolios. Due to the proprietary nature of the investment methodology, it will be difficult to identify and engage a suitably qualified and experienced manager to implement the investment strategy if the management agreement is terminated.

**Market and Economic Risk** - The market neutral portfolio seeks and is designed to minimize market risks. In a strong share market, Client portfolios may underperform the market indices, as they will have limited exposure to market risk.

The equity market is subject to a degree of volatility and therefore the portfolio performance may be volatile. There can be no assurance that the investment objective will be realised or that investors will receive any return on their investment. A particular derivative instrument or swap in which the Firm invests as part of the long portfolio may fall in value, which can result in a reduction of the value of the investors' investment. A particular derivative instrument or swap that is held in the short portfolio may rise in value, which can also result in a reduction in the value of the investors' investment.

Certain events may have a negative effect on the price of all types of investments within a particular market. These events may include changes in economic, social, technological or political conditions, as well as market sentiment. The Firm will seek to minimize market and economic risks, but cannot eliminate them entirely.

**Swap Agreements** – Client portfolios may enter into swap agreements that are individually negotiated and can be structured to include exposure to a variety of different types of investments or market factors. Such swap agreements can be entered into with respect to exposures including, but not limited to, interest rates, credit defaults, currencies, securities, dividends, and indices of securities and other assets, or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease the exposure to equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates, credit spreads, or other factors. Swap agreements can take many different forms and are known by a variety of names. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the portfolios. If a swap agreement calls for payments, the Fund/SMA must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses

to the portfolio. Certain swaps, including variance swaps, may be uncapped and thus may create the risk of a theoretically unlimited loss. Swaps may be subject to close-out risk by the counterparty's inability to close out its hedge. Swaps may also pass through actual or theoretical tax exposure of trading the underlying security in a particular jurisdiction.

**Other Risks that could Materially Affect the Fund's Operating Results and/or the Investors' Investment** - Investments derived from listed securities take company specific risks linked to the financial performance of that business. These risks can be independent of market risk. The future earnings and the value of the investments may be affected by the general economic climate, commodity prices, currency movements, changing government policy, and other factors beyond the control of the Firm. As a result, no guarantee can be given in respect of the future earnings or the earnings and capital appreciation of the investments.

Variations in legislation and government policies (for example, legislative or regulatory restrictions on short selling or other activities required to implement the investment strategy) may have a negative impact on investment returns.

**Short Positions Risk** - There are risks inherent in the investment strategy that the Firm will employ:

- the swap counterparty through which the Firm transacts may be required to cover a short position at a higher price than the short price, resulting in a loss. Losses on short sales are potentially unlimited as a loss occurs when the value of a security sold short increases;
- until the swap counterparty, through which the Firm transacts, replaces a borrowed security, the portfolio will be required to maintain assets with the Prime Broker as collateral. Thus, short sales involve credit exposure to the Prime Broker that lends the securities; and
- the Firm uses the service of a Prime Broker and custodian and must post collateral with the Prime Broker under the Prime Broker Agreement. In the event of insolvency of the Custodian or the Prime Broker, the Client portfolio may not be able to recover the entire value of the relevant securities.

**Limited Diversification Risk** - Since the portfolio will be concentrated in a limited number of positions, and will not necessarily be widely diversified, the investment portfolio may be subject to more rapid change in value than would be the case if the portfolio were to maintain a wide diversification.

**Currency Risk** – Client portfolios will invest primarily in swaps or equities that are denominated in Australian dollars ("AUD") while the SMA's and Funds' base currency is US dollars ("USD"). Fluctuations in the USD/AUD exchange rate may adversely affect investment returns. Fluctuations in the USD/AUD exchange rate may adversely affect investment returns that are not hedged via swaps. For portfolios investing via swaps, the Firm will attempt to mitigate currency risk by entering into hedging arrangements. However, there is no guarantee that these hedging arrangements will reduce all or part of the currency risk. Portfolios that are traded on cash, as opposed to swaps, will not be hedged. Besides exchange rate risk, currency risk includes changes to interest rates and potential interference by foreign governments through regulation of local exchange markets, foreign investment, or particular transactions in foreign currently.

**Interest Rate Risk** - Changes in interest rates may have a negative impact, either directly or indirectly, on investment returns.



These risk factors do not purport to be a complete explanation of the risks involved. Potential investors in the Funds must read the entire Fund's Offering Memorandum (and any subsequent Offering Memorandum), including all attachments, and should consult their own professional advisers before making an investment. Investment should only be made if the nature of investments and risks of investment are understood. No assurance can be given that profits will be achieved or that substantial losses will not be incurred.

### **Item 9: Disciplinary Information**

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Qato Capital has not been subject to any disciplinary action, whether criminal, civil or administrative (including regulatory) in any jurisdiction, and it has not been subject to any regulatory inspections. Likewise, no persons involved in the management of the Firm have been subject to such action.

### **Item 10: Other Financial or Industry Affiliations**

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#### **Commodity Pool Operator, Commodity Trading Adviser, Futures Commission Merchant Registration**

Qato Capital is exempt from registration as a commodity pool operator based on the de minimis level of commodity interests held by the Funds and the filing of exemption notices with the Commodity Futures Trading Commission and the National Futures Association.

#### **Other Material Relationships**

Qato Capital does not have other relationships or arrangements that are material to the Firm's advisory business or to its clients that the Firm or any of its management persons have with any of the following related persons: (i) a broker-dealer, municipal securities dealer, or government securities dealer or broker; (ii) an investment company or other pooled investment vehicle; (iii) a futures commission merchant, commodity pool operator, or commodity trading advisor; (iv) a banking or thrift institution; (v) an accountant or accounting firm; (vi) a lawyer or law firm; (vii) an insurance company or agency; (viii) a pension consultant; and (ix) a real estate broker or dealer sponsor or syndicator of limited partnerships.

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

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#### **Participation or Interest in Client Transactions**

Employees, their affiliates and relatives may invest into the Fund. As a result, the Firm and the Firm's employees may have a financial interest in the Funds through a direct investment interest in the Funds. As such, the Firm could be considered to have recommended to investors that they buy or sell securities or investments in which the Firm or a related person has some financial interest.

SMA accounts will be traded on a pari passu basis with the Funds. The trading and investment will be done so as not to disadvantage the Funds over the SMA clients or vice versa. This is disclosed to the SMA clients prior to the execution of the management agreement.

**Code of Ethics and Personal Account Dealing**

Pursuant to Rule 204A-1 of the Advisers Act, Qato Capital has adopted a written compliance manual and code of ethics that establishes various procedures with respect to investment transactions in accounts in which employees of the Firm or related persons have a beneficial interest or accounts over which an employee has investment discretion.

The compliance manual and code of ethics were adopted to avoid possible conflicts of interest, avoid inappropriate use of material, non-public information and ensure the propriety of employees' and partners' (or similar) trading activities. Where requested, the Firm can provide a copy of its Code of Ethics to any client or prospective client.

The underlying principles of the Code of Ethics are:

- Employees of the Firm must at all times place the interests of Clients first;
- Employees of the Firm must make sure that all personal securities transactions are conducted consistent with the policies set out in the Code of Ethics; and
- Employees of the Firm should not take inappropriate advantage of their positions.

The Personal Accounting Dealing ("PAD") policy extends to the trading of employees and certain other persons who have a relationship with the Firm or its personnel (together "Reporting Persons"). Reporting Persons may not engage in personal trading that violates the law, interferes with their duties, or otherwise violates the Firm's policy or other policies and procedures. Employees are required to disclose all accounts upon hiring and seek approval upon opening of a new personal trading account. A Reporting Person is responsible for ensuring that the Firm receives duplicate trade confirmations or account statements. All personal trades must be pre-cleared through the in-house CRS Certus system except for trades in exempt securities or trades made in a managed account. PAD in securities or derivatives which are included on the Firm's "restricted list" are strictly prohibited.

Although employees are permitted to trade in securities which are within the scope of the Firm's investment universe, the Firm has in place sufficient measures to mitigate potential conflicts of interest. For instance, where a security is or is anticipated to be invested into, such a security is not permitted for trading on employees' personal dealing accounts. The Firm takes a strict approach on PAD and ensures Clients' best interests at all times.

Any request for an exception under the PAD policy must be submitted in writing to the CCO and CIO with sufficient information for consideration; any such requests of the CIO are submitted to the CCO, while any such requests of the CCO are submitted to the CIO.

**Item 12: Brokerage Practices**

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**Best Execution**

In effecting securities transactions, the Firm will seek to obtain best execution of orders. In selecting brokers for trade execution, the Firm will consider such factors as execution ability, administration and settlement ability, stock-lending capability, quality of research produced, specialists' research skills, quality of information services, quality and frequency of client contact, ability to deal in specific markets and financial strength. These factors are general guidelines only and are not exhaustive. Accordingly, the commissions charged by any such broker may be greater than the amount another firm might charge if the Firm determines in good faith that the amount of such commissions is reasonable in relation to the value of the brokerage services and research information provided by such brokers.

The Firm has adopted a counterparty review process which assists to ensure that execution takes place in line with the Firm's best execution requirements.

### **Trade Aggregation**

The aggregation or blocking of Client transactions allows an adviser to execute transactions in a more timely, equitable, and efficient manner and seeks to reduce overall commission charges to clients. The Firm's policy is to aggregate Client transactions where possible and when advantageous to clients. In these instances, Clients participating in any aggregated transactions will receive an average share price and transaction costs will be shared equally and on a pro-rata basis.

### **Trade Allocation**

The Firm's policy prohibits any allocation of trades in a manner that that would allow its proprietary accounts or Clients to receive more favourable treatment than other Clients.

### **Principal Transactions/ Cross Trades**

In a "principal transaction," an investment adviser, acting for its own account, buys a security from, or sells a security to, a client's account. The Firm does not maintain "own accounts" / proprietary accounts. The Firm currently does not engage in cross trades between Clients' accounts. Should the Firm in future engage in cross trades between Clients' accounts, the reason / trade rationale for all cross trades will be clearly documented during the trade action process and prior to trade execution. Furthermore, Clients will be notified of cross trades when required.

### **Soft Dollars**

The Funds may obtain products or services other than the execution of securities transactions from brokers in exchange for the direction of brokerage transactions to the broker ("Soft Dollars"). The Soft Dollars may include products or services from brokers or other third parties (for example through commission sharing agreement) such as (without limitation) research and advisory services, economic and political analysis, portfolio analysis (including valuation and performance measurement), market analysis, data and quotation services, computer software, or other electronic communications facilities for the purpose of transmitting orders and providing trade analytics (including analytics available through order management systems) and advice on market color and execution strategies, clearing and custodian services and investment related publications. To the extent possible and appropriate, the Firm will use Soft Dollars for the benefit of the Fund. The Firm may also use the Soft Dollars for other investment funds, client accounts and proprietary accounts it may manage in the future.

The Firm will generally use reasonable best efforts to ensure that the use of Soft Dollars to pay for research products or services will fall within the safe harbor created by Section 28(e) of the US Exchange Act.

## **Item 13: Review of Accounts**

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### **Review of Accounts**

The Funds and SMAs are reviewed and reconciled on a daily basis by the investment team to ensure that the structure and individual securities held are suitable and consistent with the objectives and strategies. In addition, the Firm's operations team monitors the Client portfolios to help ensure conformity with investment objectives and guidelines. The Firm also performs daily trade and cash reconciliations.

The Firm has also engaged an independent administrator to prepare monthly unaudited reports reviewing the Clients portfolio performance for the month.

## **Reporting**

The Funds will prepare their respective annual financial statements in accordance with IFRS. Copies of the audited financial statements will be issued to all investors within 120 days of the Funds' fiscal year-end. The Firm will prepare and issue an investor newsletter on a monthly or quarterly basis. The administrator will issue monthly account statements to investors, or as agreed under SMA guidelines.

Where required by the SEC, for the Fund with US investors and marketed to US investors, copies of the audited financial statements will be issued to all investors within 120 days of the Fund's fiscal year-end.

## **Item 14: Client Referrals and Other Compensation**

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The Firm or any related person of the Firm may compensate third parties who provide referrals for advisory clients.

## **Item 15: Custody**

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Qato Capital does not maintain direct custody over client funds or securities. All assets are held at qualified custodians. The Funds each have their own fund administrator, prime broker and custodian who are independent of the Firm. Investors in the Funds will receive monthly account statements from the administrator. The Firm urges investors in the Funds to carefully review such statements and compare such official records to the reports that Qato Capital may provide to such investors.

## **Item 16: Investment Discretion**

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Qato Capital possesses discretionary portfolio management authority over the Funds and SMAs with respect to asset allocations and direct investments as per the advisory agreements and offering documents in place.

Qato Capital has the authority to determine (i) the securities to be purchased and sold for the client account and (ii) the amount of securities to be purchased or sold for the client account.

## **Item 17: Voting Client Securities**

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Where the Firm has responsibility for voting proxies, the Firm will take measures reasonably designed to ensure that they are voted in the best interest of its clients, which generally means voting with a view to enhancing the value of client securities. Financial interest of

clients is the primary consideration in determining how their proxies should be voted. The Firm may refrain from voting in certain circumstances.

Below are some voting principles that the Firm may take into account in voting proxies whilst each situation must be judged on its own merits:

- In the absence of evidence to the contrary, the Firm will give considerable weight to management recommendations, except in the case of issues directly affecting the interests of management itself, such as management compensation;
- The Firm will in general support management recommendations about the internal operations of the company. Whilst a proposal which is likely to have significant economic effect on the relevant company and its security-holders will be subject to greater scrutiny on a case-by-case basis;
- The Firm favours having strong independent directors and supports the delegation of key functions (such as compensation, audit and nominating committees) to independent directors and the Firm will in general oppose classification of directors

#### **Item 18: Financial Information**

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Qato Capital has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.