

Form ADV Part 2A Brochure

Legato Capital Management, LLC

111 Pine Street, Suite #1700 • San Francisco, CA 94111

Phone: 415-821-8585 • Fax: 877-838-8304

www.legatocm.com

This Brochure provides information about the qualifications and business practices of Legato Capital Management, LLC (“Legato”). If you have any questions about the contents of this Brochure, please contact us at 415-821-8585 or info@legatocm.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. Legato is an SEC registered investment adviser. This registration does not imply a certain level of skill or training.

Additional information about Legato is available on the SEC’s website at www.adviserinfo.sec.gov.

February 10, 2016

Material Changes

The following is a summary of material changes since our last year's annual updating brochure dated March 27, 2015:

- As of July 31, 2015, Legato Capital Management, LLC ("Legato") acquired the equity ownership of its founding limited partner, Forward Management LLC, in a management buyout.
- As of August 10, 2015, Lusine Moshkounian, Legal Counsel and Chief Compliance Officer, left the firm to pursue other interests. Eric C. Pollack, Chief Financial Officer and a member of the Investment Team, has since assumed the Chief Compliance Officer role.
- As of January 29, 2016, Scott Ohm, Senior Vice President, Product Specialist, and a non-voting member of Legato's Investment Committee, left the firm to pursue other interests. The remaining members of the Investment Committee have since absorbed his responsibilities.

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Advisory Business

Firm Description

Legato Capital Management, LLC (“Legato”), a California limited liability company, was formed in February 2004 and is registered as an investment adviser with the United States Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Legato is a privately held firm that is 100% employee owned and majorityminority owned. The principal owner is the Victor and Kathy Hymes Revocable Trust UDT dated October 28, 1999.¹ Victor L. Hymes is the Founder, Chief Executive Officer and Chief Investment Officer of Legato.

Types of Advisory Services

Legato serves as a manager-of-managers for institutional clients and specializes in building customized multi-manager equity portfolios across domestic and international asset classes, styles and capitalization sizes. In constructing multi-manager portfolios, Legato integrates manager selection, asset allocation and risk management process. Legato provides its manager-of-managers advisory services to institutional clients through separate account or private investment fund structures.

As a manager-of-managers, Legato is responsible for selecting other investment advisers (“sub-advisers”), who, in-turn, purchase and sell securities for the clients’ accounts. The services that Legato typically provides as a manager-of-managers include: (i) identifying and selecting sub-advisers for client portfolios; (ii) allocating client assets among selected sub-advisers; (iii) monitoring the performance and operations of the selected sub-advisers by conducting on-going due diligence on the sub-advisers; and (iv) client reporting.

Legato constructs client portfolios utilizing multiple sub-advisers that are intended to complement one another. Legato generally utilizes sub-advisers that are characterized as “emerging managers” and/or “entrepreneurial managers.” These sub-advisers are typically smaller firms, with assets under management of \$2 billion or less.

Legato tailors its advisory services to the individual needs of each institutional client, including the client’s investment objectives and guidelines and risk parameters. Clients have the ability to impose restrictions on the management of their accounts, such as restrictions on investing in particular securities or types of securities.

Assets Under Management

All of Legato’s client assets are managed on a discretionary basis. As of December 31, 2015, Legato’s assets under management totaled \$1,399,000,000.

¹ Please refer to Schedule A/B of the ADV for a complete ownership list.

Fees and Compensation

Description of Investment Management Fees

Legato's fees are established on a client-by-client basis and set forth in each client's investment management agreement or applicable fund's governing documents. Legato generally charges a fee based on a percentage of a client's assets under management ("asset-based fees"). Legato's fees are typically inclusive of the sub-advisers' fees.

Legato also receives flat fees for advisory.

Legato's stated annual fees are as follows:

Asset Class	Annual Fee
Small Cap	1.00% on the first \$50 million, 0.90% for the next \$50 million, 0.85% for the next \$100 million and negotiable thereafter
Large Cap	0.70% for the first \$100 million, 0.65% for the next \$100 million, 0.60% for the next \$100 million and negotiable thereafter
All Cap	0.70% for the first \$100 million, 0.65% for the next \$100 million, 0.60% for the next \$100 million, and negotiable thereafter
SMID Cap	0.80% for the first \$100 million, 0.75% for the next \$100 million, 0.70% for the next \$100 million and negotiable thereafter
Micro Cap	1.35% for the first \$50 million, 1.30% for the next \$50 million, 1.25% for the next \$100 million and negotiable thereafter
International All Cap	0.90% for the first \$50 million, \$0.85 for the next \$50 million, \$0.80 for the next \$100 million and negotiable thereafter
Global Large Cap	0.85% for the first \$100 million, 0.80% for the next \$100 million and negotiable thereafter

All fees are subject to negotiations and a client's fee may differ from the above stated fee. A number of factors are considered in establishing a fee schedule, such as type of mandate, size of the portfolio, complexity of the relationship or strategy, and prior contractual commitments.

Fee Billing

Fees are payable quarterly, in arrears. Legato does not require or solicit prepayment of fees.

Legato's asset-based fees are calculated based on the market value of the assets, including interest, dividends, and cash and cash equivalents as valued by an independent third party. In most cases, the independent third party is the client's custodian. When an account is opened after the beginning of a quarter, the market value of the account at inception is used as a valuation, and the fee is prorated for that quarter. Similarly, when the management for the account ends before the end of the quarter, the closing value of the termination date is one of the valuations used and the fee is prorated. In the event the client terminates our services, the balance of any earned, unpaid fees will be due and payable at the time the account is closed.

Legato's fee schedule is typically inclusive of asset management fees for the sub-advisers. The majority of our clients make a single quarterly fee payment to Legato, and we then compensate all underlying sub-advisers directly. Legato does not typically deduct fees directly from a client's account, but a client may select to have Legato either deduct the advisory fee from the client's account or bill the client for fees incurred.

Other Fees

Clients may incur certain charges imposed by banks and/or custodians. Such fees may include, but are not limited to, custodial fees, charges imposed directly by a mutual fund or exchange traded fund in the account (which will be disclosed in the applicable fund's prospectus), wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Additionally, clients may incur brokerage commissions and transaction fees. Such charges, fees and commissions are exclusive of and in addition to our fee. Legato does not receive any portion of these commissions, fees or costs. Please refer to the "Brokerage Practices" section for additional information.

Other Compensation

Legato does not accept compensation for the sale of securities or other investment products.

Performance-Based Fees & Side-by-Side Management

Legato currently does not have any performance based fee arrangements.

Types of Clients

Description

Legato provides investment advisory services primarily to institutional clients, such as public and private pension plans and charitable organizations.

Account Minimums

Legato generally imposes a minimum portfolio value of \$25,000,000 for its investment management services. Legato, in its sole discretion, may accept clients with smaller portfolios based upon certain criteria including anticipated future additional assets, dollar amount of assets managed, related accounts, account composition, pre-existing client, account retention, anticipated future earning capacity and pro bono activities. We only accept clients with less than the minimum portfolio size if, in our opinion, the smaller portfolio size will not cause a substantial increase of investment risk beyond the client's identified risk tolerance.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Legato's research methodology employs both qualitative and quantitative analysis to discover sub-advisers. The goal of our quantitative analysis is to identify the universe of sub-advisers that in our view have demonstrated the ability to produce excess return in different market environments. Our qualitative and quantitative research focuses on evaluating the investment process, portfolio management team, research capabilities, trade execution, business operations, compliance, risk management, marketing potential, integrity and suitability.

Legato applies fundamental research to construct portfolios. We use publically available financial data to analyze the risk profile of each strategy.

Investment Strategies

Legato specializes in building customized multi-manager equity portfolios across domestic and international asset classes and cap sizes. We construct these portfolios by combining strategies managed by the sub-advisers. These strategies are intended to have complementary investment styles and we allocate a percentage of the client's portfolio to each of these sub-advisers.

Legato generally allocates client assets among sub-advisers for active discretionary management based upon the stated investment objectives of the client. In doing so, we will, directly or through the selection of sub-advisers, buy, sell, exchange and/or transfer shares of securities based upon the investment strategy. Clients have the ability to impose reasonable restrictions on the management of their account, including the ability to instruct us not to purchase certain securities or types of securities.

Risk of Loss

A risk of investing in a Legato multi-manager portfolio is that a sub-adviser selected by Legato may not meet our risk and return objectives, resulting in a portfolio with differing risk and return characteristic expectations. In addition, Legato constructs portfolios based on assumptions that the underlying fundamental company data is complete and accurate. There is a risk that the market does not price securities based on fundamental company data but on other (e.g., macroeconomic) concepts.

Investing in the securities markets involves risk of loss that each client should be prepared to bear. Investing in foreign securities markets involves additional risks including political, economic and currency risks, as well as risks associated with differing accounting methods.

Disciplinary Information

Legato has no legal or disciplinary information to disclose.

Other Financial Industry Activities and Affiliations

Victor Hymes maintains FINRA Series 65 with Legato and has passed the Series 7 examination, but currently is not registered with any broker-dealer firm.

Legato serves as an investment manager to limited partnerships and a limited liability company in which clients may have invested or been solicited to invest. These limited partnerships and limited liability company are described on Legato's Form ADV, Part 1, Schedule D, Item 7.B., which is available on the Investment Adviser Public Disclosure ("IAPD") website.

As a manager-of-managers, Legato recommends or selects sub-advisers for our clients. Legato does not receive compensation directly or indirectly from those sub-advisers.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

Legato has adopted a Code of Ethics for all employees of the firm ("Access Persons") describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, restrictions on the acceptance of significant gifts and the reporting of certain outside activities, and personal securities trading procedures, among other things. All Access Persons at Legato must acknowledge the terms of the Code of Ethics at least annually.

Personal Trading

Access Persons may invest in securities that are purchased or held by client accounts. Under the manager-of-managers structure, sub-advisers are responsible for purchase and sell decisions for client accounts. As a result, Access Persons typically are informed about investments for client accounts and the timing of those investments after the transactions have been effected. Legato requires that all Access Persons report their personal securities holdings annually and transactions at least quarterly. Additionally, on a quarterly basis, each Access Person must certify in writing that his or her activities have been in compliance with the Code of Ethics.

Clients and prospective clients may contact Legato to request a copy of the Code of Ethics.

Brokerage Practices

Selecting Brokerage Firms

Under the multi-manager structure, the sub-advisers will recommend or select a broker or dealer most capable of providing the services necessary to obtain the best execution of that transaction. However,

upon request of a client, Legato may also make recommendations to certain sub-advisers for broker-dealers on behalf of the client, and may recommended certain brokerage firms for transition services.

Best Execution

As a matter of policy and practice, Legato conducts initial and on-going due diligence on sub-advisers' policies, procedures and practices regarding soft dollars, best execution and directed brokerage. Legato seeks to ensure that each sub-adviser complies with client guidelines and observes best practices.

The sub-advisers should act in accordance with their duty to seek "best execution." However, a client may pay a commission that is higher than another qualified broker-dealer might charge to effect the same transaction where a sub-adviser determines, in good faith, that the commission is reasonable in relation to the value of the brokerage and research services received. In seeking best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services, including among others, the value of research provided, execution capability, financial strength, commission rates and responsiveness. While the sub-advisers will seek competitive rates, they may not necessarily obtain the lowest possible commission rates for client transactions.

A client may direct sub-advisers and/or Legato in writing to use a particular broker-dealer to execute some or all transactions for the client. In that case, the client will negotiate terms and arrangements for the account with that broker-dealer, and neither Legato nor the sub-adviser will seek better execution services, better prices or be able to aggregate client transactions for execution through other broker-dealers with orders for other accounts managed by Legato or the sub-adviser. As a result, the client may pay higher commissions or other transaction costs or greater spreads, or receive less favorable net prices, on transactions for the account than would otherwise be the case. Subject to its duty of best execution, the sub-adviser and/or Legato may decline a client's request to direct brokerage if, in the sub-adviser's or our discretion, such directed brokerage arrangements would result in additional operational difficulties.

Review of Accounts

Periodic Reviews

Members of Legato's Investment Team periodically monitor portfolios as part of an on-going process. On a quarterly basis, the Investment Team formally conducts sub-adviser due diligence meetings and reviews portfolio exposures relative to specific benchmarks, along with performance and risk attribution.

At least annually, Legato meets with clients for a formal portfolio review. All investment advisory clients are encouraged to discuss their needs, goals and objectives with Legato and to keep us informed of any changes.

Regular Reports

Legato delivers customized reporting with client-specific requirements for each account. The information we provide includes, but is not limited to, monthly and quarterly written reports on the total portfolio and on each sub-adviser in the client's portfolio:

- Legato and sub-adviser organizational updates
- Investment strategy review
- Performance analysis
- Total portfolio and sub-adviser performance
- Portfolio holdings and transactions
- Portfolio characteristics

Client Referrals and Other Compensation

Legato does not compensate any person, who is not a supervised person, for client referrals—directly or indirectly.

Custody

Legato's practice is not to have physical custody of client assets. Legato, however, meets the legal definition of having custody over certain client accounts because it serves as general partner or manager of certain private or pooled investment vehicles or has the authority to access client funds or securities. For those clients, in accordance with SEC rules and regulations, Legato will undergo an annual surprise exam or a public accounting firm will conduct an annual financial statement audit of the private or pooled investment vehicle.

Separate account clients should receive at least quarterly statements from the broker-dealer, bank, or other qualified custodian that holds and maintains client's investment assets. Legato urges you to carefully review such statements and compare such official custodial records to the account statements that we may provide to you. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Investment Discretion

Legato allocates client assets on a discretionary basis among sub-advisers for the active management of those assets, based upon the stated investment objectives of the client. In addition, clients may, in writing, place reasonable limitations upon our discretionary authority.

Voting Client Securities

Generally, Legato delegates proxy voting to the sub-advisers who vote according to their policies. As a matter of policy and practice, Legato conducts initial and on-going due diligence on the sub-advisers' policies, procedures and practices regarding proxy voting. Legato seeks to ensure that each sub-adviser complies with client guidelines and observes best practices regarding proxy voting.

In the event of a conflict of interest between the client and a sub-adviser, the client will determine by whom and how the shares are voted. A client may also elect to vote its own proxies and will receive its proxies or other solicitations directly from their custodian or transfer agent.

Proxy voting records are generally provided to clients on a quarterly basis. Clients may obtain a copy of the Proxy voting policies and procedures for sub-advisers upon request.

Financial Information

Legato has never been the subject of a bankruptcy petition and we are not aware of any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients.

As discussed in the “Fees and Compensation” section above, Legato does not require or solicit prepayment of fees.

Additional Information

As part of our fiduciary duty to our clients and as a matter of best business practices, Legato has adopted policies and procedures for disaster recovery and for continuing our business in the event of an emergency or a disaster. Legato’s Business Continuity and Disaster Recovery Plan is available upon request.