

PRATO CAPITAL MANAGEMENT, INC.

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**WRAP PROGRAM BROCHURE
(APPENDIX 1 TO FIRM BROCHURE)
FEBRUARY 5, 2021**

This wrap fee program brochure provides information about the qualifications and business practices of Prato Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at (914) 930-6871. 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 Prato Capital Management, Inc. is available on the SEC's website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. The CRD number for Prato Capital Management, Inc. is 289917.

ITEM 2 - MATERIAL CHANGES

We have no material changes to report since our firm's last annual update on January 24, 2020.

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ITEM 4 - SERVICES, FEES AND COMPENSATION

SERVICES

We offer portfolio management services that involve assisting with the ongoing management of a client's investment accounts. We work with the client to formulate an individualized portfolio based upon his or her objectives, time frame, risk parameters, and other investment considerations. Once we have this information, we create an individualized portfolio for the client. We regularly monitor the client's portfolio and adjust it as determined by the stock market and world events.

FEES

Our wrap management fee is based on a percentage of assets under management, including the assets purchased on margin, in the client's account. The annual wrap management fee is no more than 2.00%. The wrap management fee is negotiable based on the size of the account. The client may aggregate or household accounts to negotiate a lower wrap management fee.

Our wrap management fee is billed quarterly, in advance. This means we collect the wrap management fee at the beginning of the quarterly billing period. The wrap management fee will be based on the custodian reported account value as of the last business day of the prior quarter. The management fee is not adjusted for deposits or withdrawals during the billing period. Accounts established during a calendar quarter will be charged a prorated wrap management fee. The wrap management fee will be deducted directly from the client's account unless special arrangements have been made. Cash balances and investments in money market funds held in the account are counted toward the account value and are included in the wrap management fee calculations.

In a wrap account, the client pays a single annual wrap management fee for advisory services and execution of transactions. The client does not pay brokerage commissions, markups, or transaction charges for execution of transactions in addition to the management fee.

Termination of Wrap Program Services

The client may terminate the wrap program agreement for any reason at any time and. If the client terminates the wrap program within the first five (5) business days after signing the contract, the client will receive a 100% refund of any prepaid management fees, without any cost or penalty. Thereafter, either party may terminate the wrap program agreement by giving the other party ten (10) days' written notice of termination. Upon our receipt of the client's written notice of termination, the client will receive a prorated refund of the wrap management fee based on the amount of time services were rendered during the termination quarter. For example, if there are 90 days in a quarter and the service was cancelled after 45 days, the client will receive a 50% refund of the quarterly wrap management fee (45 divided by 90 equals 50%). Refunds are paid by depositing the prorated portion of the wrap management fee back into the account, if allowed by the client's custodian. In all other cases refunds are paid by check.

Other Types of Fees and Charges

The client may pay custodial fees, fees for trades executed away from the custodian, charges imposed directly by a mutual fund, index fund, or exchange traded fund as disclosed in the fund's prospectus (i.e., fund management fees and other fund expenses), mark-ups and mark-downs, spreads paid to market makers, wire transfer fees, and other fees and taxes on brokerage accounts and securities transactions. These fees are not included within the wrap management fee that is charged by us.

There are other fees and charges that are imposed by other third parties that apply to investments in program accounts. Some of these fees and charges are described below:

- If a client's assets are invested in mutual funds or other pooled investment products, clients should be aware that there will be two layers of advisory fees and expenses for those assets. Client will pay an advisory fee to the fund manager and other expenses as a shareholder of the fund. Client will also pay us the wrap management fee with respect to those assets. Most of the mutual funds available in the program may be purchased directly. Therefore, clients could generally avoid the second layer of fees by not using our management services and by making their own investment decisions.
- Certain mutual funds impose fees and charges such as contingent deferred sales charges, early redemption fees, and charges for frequent trading. These charges may apply if the client transfers into or purchases such a fund with the applicable charges in a program account.
- Although only no-load and load-waived mutual funds can be purchased in a program account, clients should understand that some mutual funds pay asset-based sales charges or service fees (e.g., 12b-1 fees) to the custodian with respect to account holdings.

Further information regarding fees assessed by a mutual fund is available in the appropriate prospectus, which is available upon request from us or from the product sponsor directly.

Other Important Considerations

- The wrap management fee is an ongoing wrap fee for investment advisory services, the execution of transactions and other administrative and custodial services. The wrap management fee may cost the client more than purchasing the program services separately, because the client could pay an advisory fee plus commissions for each transaction in the account. Factors that bear upon the cost of the account in relation to the cost of the same services purchased separately include the type and size of the account, historical or expected size or number of trades for the account, and number and range of supplementary advisory and client-related services provided to the client.
- The wrap management fee also may cost the client more than if assets were held in a traditional brokerage account. In a brokerage account, a client is charged a commission for each transaction, and the representative has no duty to provide ongoing advice with respect to the account. If the client plans to follow a buy and hold strategy for the account or does not wish to purchase ongoing investment advice or management services, the client should consider opening a brokerage account rather than a program account.

- The investment products available to be purchased in the program can be purchased by clients outside of a program account, through broker-dealers or other investment firms not affiliated with us.
- Because we absorb certain transaction costs in wrap fee accounts, we may have a financial incentive not to place transaction orders in those accounts since doing so increases our transaction costs. Thus, an incentive exists to place trades less frequently in a wrap fee arrangement.
- We do not charge our clients higher advisory fees based on their trading activity, but clients should be aware that we may have an incentive to limit our trading activities in client accounts because we are charged for executed trades.

ITEM 5 - ACCOUNT REQUIREMENTS AND TYPES OF CLIENTS

We offer our services to individuals, high net worth individuals, corporations or other business entities, ERISA Plans, and pension and profit-sharing plans. We do not require a minimum account size.

ITEM 6 - PORTFOLIO MANAGER SELECTION AND EVALUATION

SELECTION OF PORTFOLIO MANAGER

In our wrap program, we do not select, review, or recommend other investment advisers or portfolio managers. We, through our associated persons, are responsible for the investment advice and management offered to clients. For more information about the associated person managing the account, the client should refer to the Brochure Supplement (ADV Part 2B) for the associated person, which the client should have received along with this Brochure at the time the client opened the account.

ADVISORY BUSINESS

Item 4 above contains a description of our wrap fee services.

The goals and objectives for each client are documented before any investing takes place. The client may impose restrictions on investing in certain securities or types of securities. The client must present all restrictions in writing.

PARTICIPATION IN WRAP FEE PROGRAMS

We offer wrap fee accounts to individual clients. Wrap fee accounts are managed according to the client's investment objectives, risk tolerance, and financial goals.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

We do not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client) or perform side by side management.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

We create the client's portfolio by using asset allocation. Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to

an individual's goals, risk tolerance, and investment horizon. The asset classes typically include equities, fixed-income, international, and cash and equivalents. The risk associated with asset allocation is that each class has various levels of risk and return, so each will behave differently over time. There is no guarantee that diversification among asset classes will grow a portfolio.

Once the portfolio is created, we manage the portfolio by using a proprietary combination of strategic, dynamic, and tactical asset allocations.

- **Strategic Asset Allocation:** The primary goal of a strategic asset allocation is to create an asset mix that seeks to provide the optimal balance between expected risk and return for a long-term investment horizon. Generally, strategic asset allocation strategies do not change their allocation postures relative to changing market or economic conditions.
- **Dynamic Asset Allocation:** Dynamic asset allocation is like strategic asset allocation in that portfolios are built by allocating to an asset mix that seeks to provide the optimal balance between expected risk and return for a long-term investment horizon. Similar to strategic allocation strategies, dynamic strategies largely retain exposure to their original asset classes; however, unlike strategic strategies, dynamic asset allocation portfolios will adjust their postures over time relative to changes in the economic environment.
- **Tactical Asset Allocation:** Tactical asset allocation is a strategy in which an investor takes a more active approach that tries to position a portfolio into those assets, sectors, or individual stocks that show the most potential for perceived gains. While an original asset mix is formulated much like strategic and dynamic portfolio, tactical strategies are often traded more actively and are free to move entirely in and out of their core asset classes

As part of our investment strategy we may purchase stocks, mutual funds, or other securities for the client's portfolio with money borrowed from a brokerage account. This allows the client to purchase more stock than he or she would be able to with available cash and allows us to purchase stock without selling other holdings. Margin accounts and transactions are risky and not necessarily appropriate for every client. The potential risks associated with these transactions are: (1) the client can lose more funds than are deposited into the margin account; (2) the broker-dealer can force the sale of securities or other assets in the client's account; (3) the broker-dealer can sell the client's securities or other assets without contacting the client; (4) the client is not entitled to choose which securities or other assets in the account are liquidated or sold to meet a margin call; (5) the broker-dealer can increase its "house" maintenance margin requirement at any time and is not required to provide the client advance written notice; and (6) the client is not entitled to an extension of time on a margin call.

INVESTMENT RISKS

All investment programs have certain risks that are borne by the client and **investing in securities involves risk of loss that clients should be prepared to bear.** Our goal is to reduce the risk of loss, but not at the expense of portfolio growth. Recommended investment

strategies seek to balance risks and rewards to achieve investment objectives. To manage risk, we rebalance model portfolios on an as needed basis to bring the asset allocations back to their intended balances. The client should feel free to ask questions about risks that he or she does not understand; we would be pleased to discuss them.

RECOMMENDED SECURITIES

We use several types of securities in client portfolios including, but not limited to, mutual funds, exchange traded funds, stocks, and bonds. Some of the risks associated with these securities include:

- **Credit risk:** This is the risk that an issuer of a bond could suffer an adverse change in financial condition that results in a payment default, security downgrade, or inability to meet a financial obligation.
- **Inflation Risk:** This is the risk that inflation will undermine the performance of an investment or the future purchasing power of a client's assets.
- **Interest rate risk:** The chance that bond prices overall will decline because of rising interest rates.
- **International investing risk:** Investing in the securities of non-U.S. companies involves special risks not typically associated with investing in U.S. companies. Foreign securities tend to be more volatile and less liquid than investments in U.S. securities, and may lose value because of adverse political, social or economic developments overseas or due to changes in the exchange rates between foreign currencies and the U.S. dollar. In addition, foreign investments are subject to settlement practices, as well as regulatory and financial reporting standards, that differ from those of the U.S.
- **Manager risk:** The chance that the proportions allocated to the various securities will cause the client's account to underperform relevant to benchmarks or other accounts with a similar investment objective.
- **Stock market risk:** The chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising stock prices and periods of falling stock prices.

VOTING CLIENT SECURITIES

We do not accept authority to vote client securities. Clients retain the right to vote all proxies that are solicited for securities held in the account. Clients will receive proxies or other solicitations from the custodian of assets. If clients have questions regarding the solicitation, they should contact us or the contact person that the issuer identifies in the proxy materials. In addition, we do not accept authority to act with respect to legal proceedings relating to securities held in the account.

ITEM 7 - CLIENT INFORMATION PROVIDED TO PORTFOLIO MANAGERS

In our wrap program, we are responsible for account management; there is no separate portfolio manager involved. We obtain the necessary financial data from the client and assist the client in setting an appropriate investment objective for the account. We obtain this

information by having the client complete an advisory agreement and other documentation. Clients are encouraged to contact us if there have been any changes in their financial situations or investment objectives. They should also contact us if they wish to impose any reasonable restrictions on the management of the account or modify existing restrictions. Clients should be aware that the investment objective selected for the wrap program is an overall objective for the entire account and may be inconsistent with a holding and the account's performance at any time. Clients should further be aware that achievement of the stated investment objective is a long-term goal for the account.

ITEM 8 - CLIENT CONTACT WITH PORTFOLIO MANAGERS

Clients should contact us at any time with questions regarding program accounts.

ITEM 9 - ADDITIONAL INFORMATION

DISCIPLINARY INFORMATION

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events within the past 10-years that would be material to a client's evaluation of us or the integrity of our management. We have no information applicable to this Item because we have not been the subject of any administrative, civil, criminal, or regulatory proceedings.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Our owner or associates may be independent insurance agents and may recommend insurance products to our clients. This other business activity pays them commissions that are separate from the fees described above. This is a conflict of interest because the commissions give our associates a financial incentive to recommend and sell insurance products. However, we attempt to mitigate any conflicts of interest to the best of our ability through our fiduciary duty and by informing clients that they are never obligated to purchase recommended insurance products through our associates.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

DESCRIPTION

Our Code of Ethics establishes ideals for ethical conduct based upon fundamental principles of openness, integrity, honesty, and trust. We will provide a copy of our Code of Ethics to any client or prospective client upon request.

Our Code of Ethics covers all supervised persons and it describes our high standard of business conduct and fiduciary duty to our clients. The Code of Ethics includes, among other things, provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition on rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures. All supervised persons must acknowledge the terms of the Code of Ethics annually or as amended.

MATERIAL INTEREST IN SECURITIES

We do not have a material interest in any securities.

INVESTING IN OR RECOMMENDING THE SAME SECURITIES

Our employees may buy or sell for their own account the same securities at or about the same time that they recommend those securities to clients or purchase them for client accounts. A conflict of interest may exist because they can trade ahead of client trades. We mitigate any conflict of interest in two ways. First, our Code of Ethics requires employees to report personal securities transactions on at least a quarterly basis. Employees also provide us, both upon commencement of employment and quarterly thereafter, with a detailed summary of holdings in which the employees have a direct or indirect beneficial interest. The reports are reviewed to ensure we do not trade ahead of client accounts. Second, we require client transactions to be placed ahead of our employees' personal trades or our employees can place personal trades as part of a block trade (Please see Item 12.B for details on our block trading practices). The records of all employees personal and client trading activities are reviewed and made available to regulators to review on the premises.

REVIEW OF ACCOUNTS

The Prato Capital Management Team will review our model portfolios periodically. He also communicates with portfolio management clients on a quarterly basis either by phone, email, social media or in person. Clients receive monthly or quarterly account statements and are offered access to account performance reports via our website and our Performance Reporting Platform.

Additional reviews may be conducted depending on market conditions, economic or political events, or by changes in a client's financial situation (such as retirement, termination of employment, physical move, or inheritance).

CLIENT REFERRALS AND OTHER COMPENSATION

We do not pay for client referrals or use solicitors.

We receive economic benefit from Schwab in the form of the support products and services made available to us and other independent investment advisors that have their clients maintain accounts at Schwab. These products and services, how they benefit us, and the related conflicts of interest are described in Form ADV Part 2A, Item 12 – Brokerage Practices. The availability of Schwab's products and services is not based on us giving particular investment advice, such as buying particular securities for our clients.

FINANCIAL INFORMATION

We do not have any financial impairment that will preclude us from meeting our contractual commitments to our clients. We do not serve as a custodian for client funds or securities. At no time will wrap management fees of more than \$1200 be charged six or more months in advance by our firm or a client's representative. We have established policies and procedures designed to prevent the collection of fees greater than \$1200 six or more months in advance. As such, a balance sheet is not required to be provided at this time. We have not been the subject of a bankruptcy proceeding.

CUSTODIAN CONFLICT OF INTEREST DISCLOSURE

Charles Schwab & Co., Inc. has provided a loan to us to assist our business operations, and the loan is guaranteed by Gregory Prato, our principal. The terms of the loan require that management fees to us be paid to an account at Schwab for deduction of interest and principal payments on the loan before we may access those management fees. The loan agreement contains various representations and covenants by us, including, among others, that we will maintain at least \$80,000,000 in end client net assets held at Schwab ("Assets Under Management at Schwab"), and that we will comply with all applicable laws, regulations, and agreements, and obtain all necessary licenses, consents, and permits. Upon the occurrence and during the continuance of an event of default under the loan agreement, Schwab may terminate or accelerate the loan, which may have a material adverse effect on our ability to perform services to the client.

Some of the products, services, and other benefits provided by Schwab, including the loan noted above, benefit us and may not benefit our client accounts. Our recommendation or requirement that a client places his or her assets in Schwab's custody may be based in part on benefits Schwab provides us, or our agreement to maintain a certain Assets Under Management at Schwab, and not solely on the nature, cost, or quality of custody and execution services provided by Schwab.

We place trades for our clients' accounts subject to our duty to seek best execution and our other fiduciary duties. We may use broker-dealers other than Schwab to execute trades for client accounts maintained at Schwab, but this practice may result in additional costs to clients so that we are more likely to place trades through Schwab rather than other broker-dealers. Schwab's execution quality may be different than other broker-dealers.