

16-May +2.19 %

Latest 12 Months -21.36 %

Key Points:

■ Melbourne-based boutique fund manager backed by single family office, Larkfield Funds Management. Qato has a systematic, market-neutral strategy which invests exclusively in S&P/ASX 100 stocks.

■ Portfolio Manager and CIO Ben Silluzio has 21 years' financial markets' experience working for global financial institutions servicing institutional and ultra-high net worth (UHNW) investors.

■ Silluzio developed QATO Capital's Q-score process which captures and quantifies six broad fundamental factors, which assess multiple underlying sub-categories. Those companies with the top score (quality companies) are included in the "long" portfolio, those with the lowest score are sold short.

■ The portfolio typically holds a total of 30 positions, 15 long and 15 short, targeting equal-weightings adopting a smart-beta philosophy. The Q-score process is run at the end of each month, and the portfolio and its positions are then adjusted or removed, and new companies are added.

■ A strict risk regime with hard stop loss limits is employed intra-month to limit portfolio's potential downside.

■ The Manager has invested significantly in structure and staffing, with operations the responsibility of Brett Dawson and with a dedicated Legal, Compliance and Risk Manager Officer reporting to the Board and total staffing of seven people.

Management Company Overview:

QATO Capital was established in 2014 by Ben Silluzio, who along with the senior management consisting of Brett Dawson (COO) and Greg Hargrave (Executive Chairman) holds 100% of the management company.

Silluzio holds a Graduate Diploma of Applied Finance and has 21 years' experience in financial markets, servicing hedge fund managers and ultra-high net worth (UHNW) clients. He has also worked for global financial institutions including Colonial, Commonwealth Bank, Credit Suisse First Boston, Citi Group Smith Barney and UBS Wealth Management. In 2011 Ben established and became managing partner of RBS Morgans' UHNW division prior to founding QATO in 2014.

COO Brett Dawson has over 11 years financial industry experience in both buy (Institutional funds management and hedge fund-of-funds) and sell-side (Private client wealth management) investing. His previous experience includes Warakiri Funds Management, UBS Wealth Management AG, and with Silluzio established RBS Morgans' UHNW Division. He holds a Bachelor of Commerce in Banking and Finance and a Bachelor of Applied Economics, and is primarily responsible for managing the Fund's operations.

Greg Hargrave, Qato's Executive Chairman, has extensive entrepreneurial and management experience ranging from publicly listed companies and successful private start-ups. He was CEO for ASX-listed Skilled Group and Chairman and director of the Larkfield Family Office for over a decade.

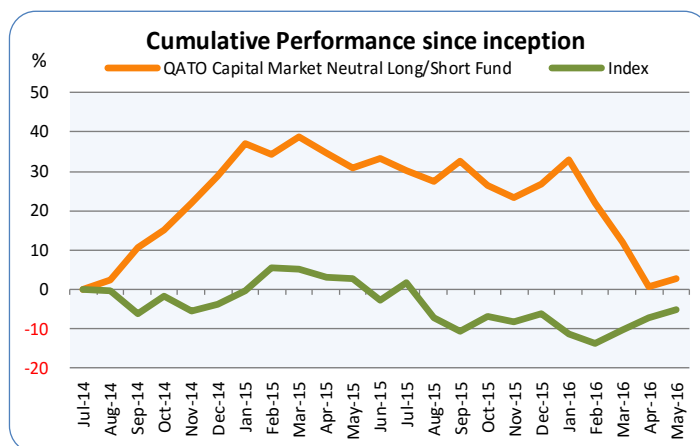


Key Performance Statistics	QATO	Index*
May-16	2.19	2.31
Annualised Return	1.52	-2.75
Latest 3 Months	-15.79	10.10
Latest 6 Months	-16.61	3.64
Latest 12 Months	-21.36	-7.44
Latest 24 Months p.a.	NA	NA
Latest 36 Months p.a.	NA	NA
Latest 60 Months p.a.	NA	NA
% Positive Months	54.55	45.45
Best Month	8.19	5.97
Worst Month	-10.14	-8.81
Largest Drawdown	-27.45	-18.25
Average +ve Return	4.29	3.70
Average -ve Return	-4.59	-3.36
Annualised Standard Deviation	17.44	14.07
Downside Deviation (Since Inception)	13.03	11.13
Sharpe Ratio (Since Inception)	0.05	-0.28
Sortino Ratio	-0.05	-0.44

*Index is ASX100 Price adjusted since Fund's Inception

James Skerrett has a Master of Laws (Juris Doctor) and is the Fund's dedicated Legal, Compliance and Operations Manager Officer. He has diverse legal and corporate advisory experience at Herbert Smith Freehills and Orion Corporate Advisory and compliance experience gained from law firm, Plexus.

The Manager has established an impressive Advisory Board to provide Qato's management with strategic inputs regarding general business matters, and to ensure good corporate governance processes. Chairman of the Advisory Board is the Hon. Richard Alston AO., who is a global advisory board member of the \$USD14bn London based hedge fund manager CQS. Alston was formerly Australia's Ambassador to the UK, and prior



Performance - Net of Fees (%)														QATO Capital Market Neutral Long/Short Fund
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	
2016	4.90	-8.09	-8.29	-10.14	2.19	-	-	-	-	-	-	-	-18.81%	
2015	6.36	-1.87	3.12	-2.96	-2.84	1.89	-2.26	-2.22	4.25	-4.76	-2.46	2.70	-1.72%	
2014	-	-	-	-	-	-	-	2.40	8.19	3.87	5.87	5.75	28.83%	

to that a senior Federal Cabinet Minister. Sheikh Jamuluddin bin Sheikh Muhammed OBE is Vice Chairman, and formerly head of the Brunei Investment Agency, (London) and is CEO of Royal Brunei Air and a Director of Tourism Brunei. Other members of the Advisory Board include Ian Jeffrey, formerly Head Tax Partner of PwC, Luke McConnel, formerly CFO of the Royal Bank of Scotland (Nordics) and currently Financial Controller ANZ Institutional Bank, and Adrian Giles, the Co-founder of Hitwise and a Director of AdSlot, who has experience in global start-ups.

Investment Strategy

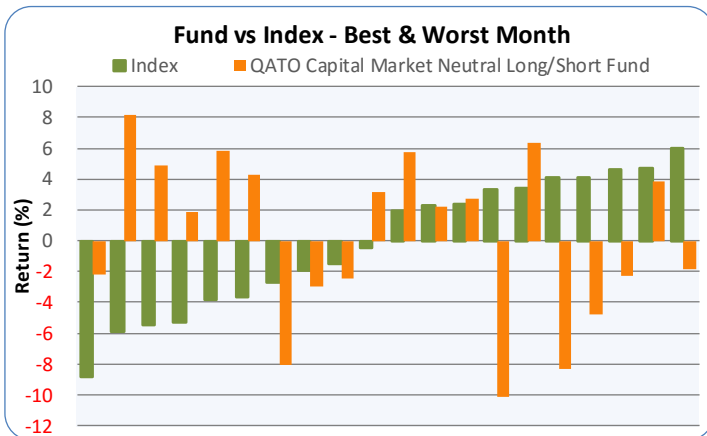
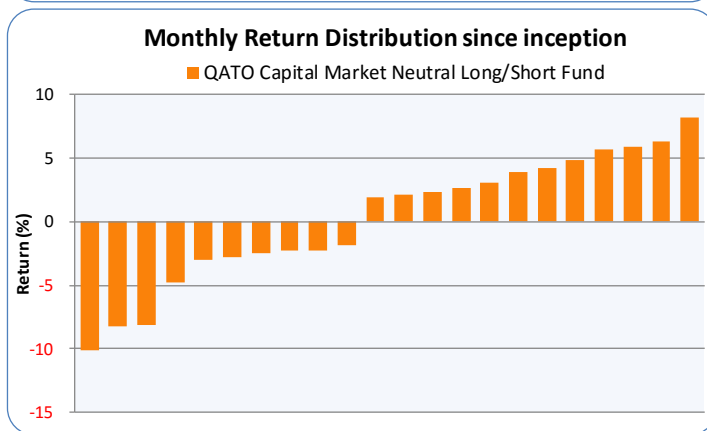
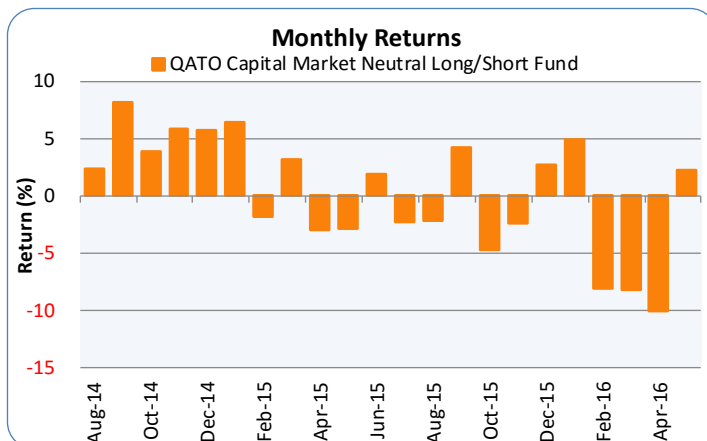
The Qato Equity Market Neutral Fund (the "Fund") invests exclusively in S&P/ASX 100 Index stocks. The Fund may also invest outside of the S&P/ASX-100 Index, but only if companies within the S&P/ASX-100 Index dispose of a business and/or due to changes in the Index. In that event the Fund may hold more than 30 positions. The Fund may also hold cash and cash equivalents. A systematic approach is used to build the portfolio which is based on a quantitative ranking system known as the Q-Score, a proprietary stock selection and risk management system which ranks companies based on fundamental bottom-up improvements or deteriorations. The system has been used as a long-only process since inception in 2002 and in 2010 underwent extensive research and development to include shares on both the long and short side. The resulting system has been operating live since August 2014.

In a typical environment the Fund will hold 30 stocks comprising 15 long and 15 short exposures with the resulting portfolio broadly market-neutral on a cost basis. Each stock has an equal weight (3.3%) in the portfolio at cost, with the stocks representing the highest Q-Score being bought, and those with the lowest Q-Score being sold short. The short side may, on occasion, have up to 20 stocks, dependent on liquidity and borrow requirements. The Q-Score is re-calculated monthly, with the short book reset and re-balanced every month, while the long book is adjusted each quarter. The short book is rebalanced more regularly as the Manager believes markets react more quickly to negative information, and also to reduce the potential risk of short positions leading to greater losses.

The Q-Score methodology is a proprietary system, tested and developed by Silluzio and his team. Being a dynamic process, all ongoing testing and development is conducted in-house at Qato.

The essence of the Q-Score is to capture the changing financial factors of a company and its valuation, and then using this data to generate a list of those with improving fundamentals. Those which score well are regarded as quality companies and vice-versa. The six major attributes that are captured and measured are valuation, growth, risk, quality, earnings and price, although there are multiple inputs to each of these. Effectively the system is looking to systematically capture the most important fundamental factors and catalysts that investors focus on, and which therefore drive prices over a market cycle.

After evaluating the Q-Score outputs the resulting portfolio will have a low beta "long" exposure typically composed of relatively high-quality, safe, growing, value companies.



Performance Review

- ❑ The Fund has just over a year and half track record and therefore it is difficult to draw conclusions around performance in the full range of market conditions.
- ❑ Since inception, the Fund has an annualised return of 2.19%, which has been achieved with higher volatility of 17.44%. compared to the Index's -2.75% with a volatility of 14.07%.
- ❑ The Fund's correlation (beta) to the S&P/ASX 100 Index is -0.33.

Meanwhile the short exposures are typically high beta, lower-quality, riskier companies generally exhibiting higher volatility. In addition, the portfolio will have a cash holding derived from the short sales, earning the prevailing interest rate.

The Q-score process is entirely objective, consistent and replicable, and apart from the logic involved, has no subjective inputs. The system incorporates a prescriptive risk overlay, and given the methodology is intended to produce results independent of market movements, and is likely to have a negative beta.

Investment Risk & Processes

The Fund does not use derivatives and has no currency exposure. The only leverage in the Fund is via short selling. There are hard stop loss limits, and James Skerrett, the independent risk officer, has the ability to close out positions when limits are reached or broken. The risk monitoring also evaluates factors that might impact portfolio construction such as short borrow availability, net exposure limits (+/-20%), gross exposure limits generally between 160% and 200%, company up/downgrades, in addition to which there are ratcheting and rolling stop loss limits.

Any breaches of risk limits are corrected on market with the risk manager acting independently if limits are breached, although requiring the sign off at least one independent Trustee. At the stock level 'long' positions are typically re-balanced quarterly to re weight them equally. 'Short' positions are typically re-balanced monthly. On rebalancing at the start of each month there is typically no net exposure, which then only occurs due to market movements in the underlying positions.

Operational, Business Risk and Compliance

Operational and business risk is considerably reduced through the use of industry standard service providers such as PWC and Citco, and Morgan Stanley Intl PLC as prime broker. The Manager conducts thorough due diligence on each counterparty prior to their engagement, with Brett Dawson responsible for monitoring and managing counterparty risk and exposures on an ongoing basis. He also monitors a range of credit and liquidity measures on a monthly basis to identify any stress in the broader financial system. The Manager's compliance regime was established by, and is maintained by Compliance and Risk Services Pty Ltd, based in Melbourne.

The main operational risk is focused on key man risk regarding Ben Silluzio. While other members of the senior executive team can operate the proprietary software driving the Q-score process, Silluzio developed it and has the most thorough knowledge of the system and its dynamics. However, given that the Fund only invests in liquid ASX 100 stocks there are unlikely to be delays if the Fund's assets needed to be realized with the size and structure of the portfolio, reducing the impact of the loss of a key person to investors.

Investor Relations

Current funds under management (FUM) is over A\$170million, spread across 90 investors, including 1 foundation investor holding 1.82% and 92 High Net Worth Investors totaling 20.02%. As of 31st May 2016 the three principles, their families and members of the advisory board had a combined \$A14.5million invested in the fund

Monthly reporting is detailed and includes exposures, major long and short contributors as well as risk analytics and correlations. The Manager also provides commentary on the Fund and markets.

Structure, Terms & Conditions and Fees

Qato Capital Pty Ltd (ACN 601 673 107) is an Australian company and the Information Memorandum is issued under authority of the Trustee, Cyan Investment Pty Limited (AFS Licence number 453209). The Fund is open to wholesale investors only, and has monthly application terms requiring 3 business days' notice and a minimum investment of \$250,000. Redemptions of a minimum amount of \$250,000 are monthly with 10 business days' notice. There is no lock up or exit restrictions.

The Manager charges the fund a management fee of 1.65% p.a. of the Fund's NAV, payable monthly, with an annual performance fee of 20% of the increase in NAV above the benchmark (RBA Cash Rate), subject to a high water mark. There is no entry fee, and a sell spread of 0.3% paid to the Fund.

The Fund is structured as an Australian Unit Trust and the Manager is in the process of establishing a Cayman based fund which will operate identically to the domestic fund, to cater for demand from offshore investors.

QATO Capital Market Neutral Long/Short Fund	
Strategy	Equity Market Neutral
Geographic Mandate	Australia
Domicile/Structure	Australia
Investor Type	Wholesale
Min. Investment	AU\$250,000
Additional Investment	AU\$25,000
Management Fee	1.65% of NAV
Performance Fee	20%
Hurdle	RBA Cash Rate
Min. Term	1 month
Investment/Redemption	Monthly, min. amount \$25,000
Buy/Sell Spread	0.00%
Inception Date	Aug-14
Fund Size	AU\$170m
Status	Open

Service Providers

Custodian & Prime Broker:	Morgan Stanley & Co. Intl PLC
Administrator:	Citco Fund Services
Auditors:	KPMG
Legal:	Watson Mangioni (AU) & Maples & Calder (Cayman)
OM/PMS/Risk:	Eze Castle/Tradar

This report is valid till July 2016

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