

AFM Fund Review

QATO Capital Market Equity Long/Short Fund

Aug-15 **-2.22 %**
Latest 12 Months **24.32 %**



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 20 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 resulting portfolio has 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 20 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 10 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.

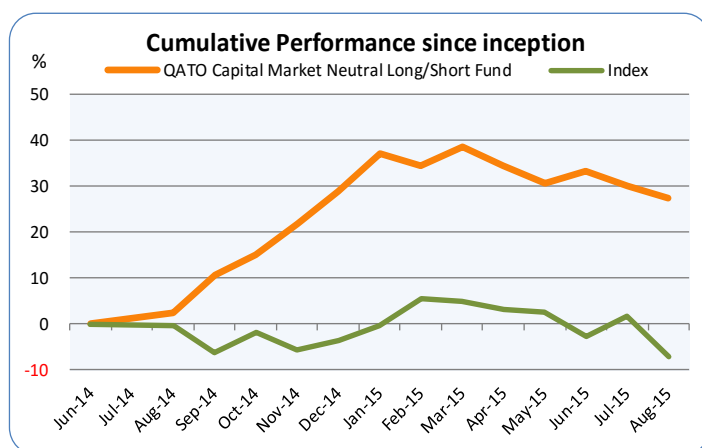
Greg Hargrave, Qato's Executive Chairman, has extensive entrepreneurial and management experience ranging from publicly listed companies and successful private start-ups. He was CEO for ASX-listed Skilled Group and Chairman and director of the Larkfield Family Office for over a decade.

James Skerrett has a Master of Laws (Juris Doctor) and is the

Key Performance Statistics	QATO	Index*
Aug-15	-2.22	-8.81
Annualised Return	24.96	-6.70
Latest 3 Months	-2.62	-9.63
Latest 6 Months	-5.32	-12.12
Latest 12 Months	24.32	-6.98
Latest 24 Months p.a.	0.00	0.00
Latest 36 Months p.a.	0.00	0.00
Latest 60 Months p.a.	0.00	0.00
% Positive Months	61.54	38.46
Best Month	8.19	5.97
Worst Month	-2.96	-8.81
Largest Drawdown	-8.19	-12.12
Average +ve Return	4.68	4.13
Average -ve Return	-2.43	-3.36
Annualised Standard Deviation	13.25	15.21
Downside Deviation (Since Inception)	5.66	12.50
Sharpe Ratio (Since Inception)	1.60	-0.53
Sortino Ratio	3.57	-0.73
*Index is ASX100 Price adjusted since Fund's Inception		

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	
2015	6.36	-1.87	3.12	-2.96	-2.84	1.89	-2.26	-2.22	-	-	-	-	-1.19%	
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

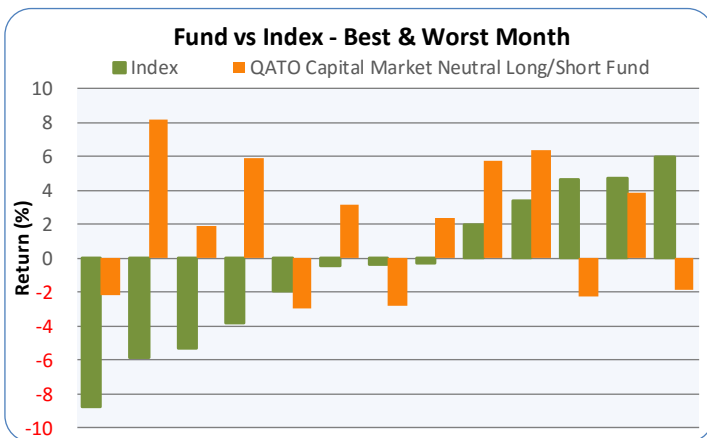
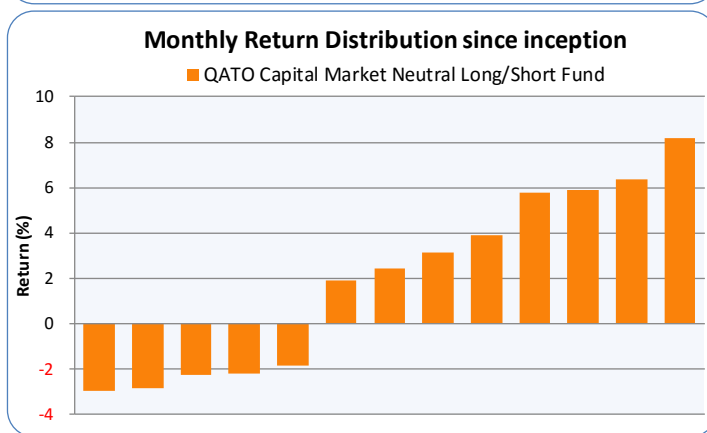
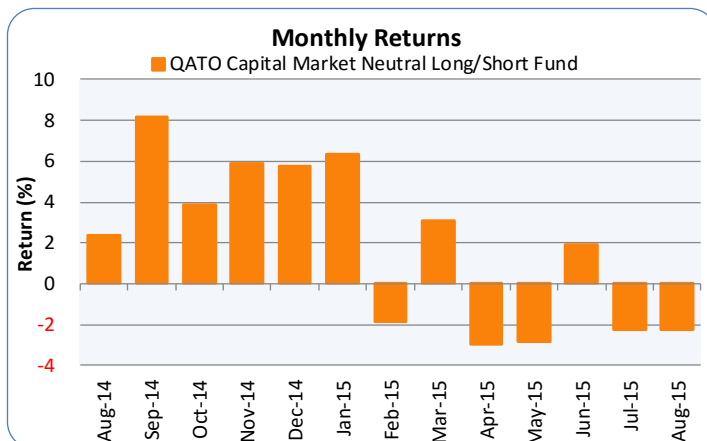
The Qato Equity Market Neutral Fund (the "Fund") invests exclusively in S&P/ASX 100 Index stocks using a systematic approach based on a quantitative ranking system known as the Q-Score, a proprietary stock selection and risk management system which ranks companies based on fundamental bottom-up improvements 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. 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.



Performance Review

- The Fund has just over one year track record and therefore it is difficult to draw conclusions around performance in the full range of market conditions.
- However what is notable from the performance to date is the Fund's negative beta of -0.06 compared to the S&P/ASX 100 Index, and a high Sharpe ratio of 1.60.

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, does not use borrowing to leverage, and has no currency exposure. 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 (+/-50%), gross exposure limits (250%), company up/downgrades, in addition to which there are ratcheting and rolling stop loss limits. Since inception gross exposure has averaged 183% within a range of 145% to 211%, while net market exposure has averaged 5.8%.

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 A\$ 50million, spread across 60 investors, including 1 foundation investor holding 6.5% and 33 High Net Worth Investors totaling 61.1%. As of 30th June 2015 the three principals, their families and members of the advisory board had a combined \$A15m 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 are 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\$50m
Manager's Total FUM	AU\$50m
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

About Australian Fund Monitors

Australian Fund Monitors (AFM) is a specialist research and information provider focusing on the Absolute Return and Hedge Fund Sector. Established in 2006, AFM holds AFS licence 324476 to provide general advice to wholesale investors only.

AFM Information and Research Services

AFM's Information Services provide comparative performance and factual fund data along with industry information available on www.fundmonitors.com and www.prismsselect.com.

AFM Research Services include AFM Fund Reviews which provide quantitative performance information along with descriptions of various aspects of each specific fund and the fund's manager. AFM Fund Reviews do not contain financial advice but are designed to provide self-directed investors and their advisers with an accurate, balanced and verifiable description of the fund's strategy and the manager's approach to enable the reader to make an informed decision on the suitability of the product for their particular purposes.

AFM FACTORS Research

AFM FACTORS Reports consist of in depth and detailed due diligence reports on specific funds and are designed for use by the research departments of dealer groups, financial advisers, and platforms. FACTORS research provide a quantitative approach to a range of operational and due diligence factors which combined with a detailed qualitative description provides the basis for inclusion of a particular fund on the approved product lists. AFM FACTORS reports are updated quarterly.

AFM Research Methodology

AFM's research product and methodology has specific benefits and features which differentiates AFM Fund Reviews from other research products.

AFM Fund Reviews do not provide ratings or recommendations:

We believe that blanket ratings and recommendations can be misleading, and are not able to take into account the financial circumstances or objectives of individual investors.

AFM Fund Reviews are clearly and concisely written:

This enables investors or their advisors to understand the objective and processes behind each fund's strategy, and structure and operations of the management company. When used in conjunction with the quantitative comparison of the fund's key performance and risk indicators (KPI's) included in each Fund Review, the reader is in a better position to make an informed decision regarding the suitability of the fund for individual investor's requirements.

AFM Fund Reviews are updated every month:

Out of date research is potentially inaccurate research. Not only can a fund's performance and risk profile change over the course of the year (typically the cycle for much of the managed fund research available) but so can operational details and investment personnel. Each AFM Fund Review contains an expiry date, and each fund manager is not permitted to distribute out of date reviews.

AFM specialises in the absolute return, hedge and actively managed fund sector:

We believe that this is a specialised area of the managed fund market, and as such requires a specific focus and expertise. The seniority and experience of AFM's research team and our focus explains why we label our product as: "**Trusted, Targeted Research**"

Disclaimer & Copyright

The information in this report, including financial returns, strategies, and other content (collectively referred to as "Content") has been prepared and issued by **Australian Fund Monitors** Pty Limited (A.C.N. 122 226 724, AFSL 324476) otherwise referred to as AFM. The information and content herein does not constitute financial advice and is for general information purposes only. Users of this report or any Content of AFM's websites (the "Websites") should not act or make any financial decision without first seeking professional advice. Whilst the Content has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by **AFM** for any errors or omissions or misstatements contained herein. Any opinions, forecasts or recommendations reflect information and assumptions at the date of publication and may change without notice. In preparing the Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Disclosure of Interest

AFM has or may have, received fees either directly from a company itself or by a third party to provide consultancy services or corporate research. AFM has or may have interests in, or received fees either directly from a company itself or by a third party to provide consultancy services or corporate research. Australian Fund Monitors Pty Limited, its directors, employees or related parties (collectively "AFM") may have investments in, or commercial relationships with, companies or entities which are mentioned in this Report, and which might give rise to a potential conflict of interest.

Copyright Protection

All Content herein is owned by **Australian Fund Monitors** Pty Limited (A.C.N. 122 226 724) and is protected by copyright. You must not copy, frame, modify, transmit or distribute the content in full or in part, without seeking the prior written consent of the copyright owner. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes

Copyright © 2014 by **Australian Fund Monitors** Pty Limited All rights reserved.

No Warranties

AFM does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content. All information and content in this report is provided on an *as is* basis, without warranty of any kind either express or implied. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other. Furthermore, AFM does not warrant or represent that this content is error free.