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Best Asian Market Neutral Fund
- the Qato Capital Market Neutral Long/Short Fund

Qato Capital



Qato Capital is an Australian based alternative funds management group backed by single family office, Larkfield Funds Management. We got in touch with Ben Silluzio, CEO and CIO of Qato, who took the time out to tell us about their company and more.

Currently, Qato Capital manages an Australian fund and is launching a Cayman Islands domiciled fund – both of which utilise the same S&P/ASX-100 market neutral long/short strategy. This strategy is systematic and employs an objective, consistent and replicable process using Qato's proprietary 'Q-Score' methodology to select our long and short positions.

The Q-Score process is fundamentally based, evaluating improving and deteriorating fundamentals within each business from a variety of financial metrics such as valuation, growth, risk, quality, earnings and price. The strategy seeks to preserve capital and maximise absolute returns through active and constant risk management, targeting a net market exposure of 0% to hedge broader market risks through 30-40 S&P/ASX-100 positions (15-20 long & 15-20 short equally-weighted positions). Historically, the strategy has been uncorrelated to traditional asset classes with a negative beta to equity markets.

The backing of Qato by a substantial single family office - Larkfield Funds Management - has enabled us to build a world-class operating platform with institutional-grade, tier-one service providers, and a highly experienced team. We know that the operational infrastructure and systems we employ are also used by the largest, most sophisticated funds in the industry.

Having worked as an UHNW and Institutional Advisor for over two decades, I recognise that creating genuine relationships with investors is the most rewarding means of doing business. These relationships are strengthened by the fact that the management team, and members of our advisory board, have invested significant amounts of personal capital in Qato's fund – which ultimately aligns our interests and provides our investors with further confidence in our investment style and strategy.

Qato provides investors with a unique fundamentally based investment strategy. Our team has a strong desire to improve and to be at the forefront of the funds management industry – we're continually researching and testing new fundamental techniques, both domestically and in international equity markets. We're striving to be the best in our industry - it's as simple as that.

Qato Capital's Market Neutral Long/Short strategy delivers investors negative beta, with a negative correlation to all major equity markets such as the S&P-500, FTSE-100 & S&P/ASX-100. In instances of major market turmoil and volatility, like the present, our market neutral strategy provides investors with much needed diversification and typically, positive returns. For example:

When the ASX-100 experiences a negative month, our market neutral strategy has produced positive returns 67% of the time:

- Average performance of ASX-100 in a down month: -3.39%
- Average performance of Qato (net) in a down month: +1.97%

When the S&P-500 experiences a negative month, our Market Neutral strategy has produced positive returns at 83% of the time:

- Average performance of S&P-500 in a down month: -2.90%
- Average performance of Qato (net) in a down month: +3.60%

Furthermore, Qato's stock selection and risk management processes are systematic and are all employed in a rules based manner, providing investors with a consistent style that will continue to deliver uncorrelated returns.

In terms of our region, the Australian economy continues to slow and as a result the stock market has begun to factor in a lower-growth environment. The risk appetite of investors is changing and absolute return strategies like Qato's are becoming more appealing given their ability to weather increased market volatility and generate returns irrespective of broader market movements.

Australian based hedge funds are sitting in an advantageous position due to the size and the long-only nature of Australia's pension assets. At present Australia has the 4th largest pool of pension assets in the world (AUD\$2.0 trillion) with approximately 28% invested in Australian equities. This amount is greater than one-third of all assets invested in the S&P/ASX-100 Index. Interestingly, hedge funds in Australia only account for a mere AUD\$80 billion (4%) of the AUD\$2.0 trillion market. This anomaly effectively guarantees the continual purchasing of Australian equities by these large pension funds, producing structural inefficiencies that can be exploited by a small number of sophisticated investment managers, such as Qato, with skillsets in short-selling.

Outside of Australia, Qato has received a significant amount of interest in our strategy. The upcoming launch of our Cayman Islands fund provides a vehicle for international investors to invest accordingly. As such, we expect to see our FUM continue to grow, particularly as our track record of uncorrelated returns persists.