

## **Item 1: Cover Page**

# **Nine Chapters Capital Management, LLC Part 2A of Form ADV The Brochure**

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Updated: March 2014

This brochure provides information about the qualifications and business practices of Nine Chapters Capital Management, LLC (“NCCM” or the “Adviser”). If you have any questions about the contents of this brochure, please contact us at 973.218.9837. 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 NCCM is also available on the SEC’s website at:  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Any reference to NCCM as a “registered investment adviser” or as being “registered,” does not imply a certain level of skill or training.**

## **Item 2: Material Changes**

NCCM's operations have not changed materially since the time of its last Form ADV filing in March 2013.

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## **Item 4: Advisory Business**

NCCM is a Delaware limited liability company and has its principal place of business in Short Hills, New Jersey. NCCM was organized on February 9, 2012 and is primarily owned by Dr. Chao Ku through intermediate entities.

NCCM provides discretionary investment advisory services to clients (“Clients”) that are privately offered pooled investment vehicles (“Funds”) commonly referred to as “hedge funds” or “private funds.” NCCM will serve as an investment adviser or manager for the Funds. The terms of those relationships are set out in our investment management agreements with, or the governing documents of, the Funds. The terms of the Funds are set forth in confidential Private Placement Memoranda or Confidential Offering Memoranda, agreements, and subscription documents (the “Offering Documents”) of the Funds. The Funds will be offered only to investors (“Investors”) who are “accredited investors” as defined under the Securities Act of 1933 (the “Securities Act”) and “qualified purchasers” as defined in section 2(a)(51)(A) of the Investment Company Act of 1940, as amended (the “Investment Company Act”) or “knowledgeable employees” (as defined in Rule 3c-5 under the Investment Company Act). With respect to the Funds, NCCM will manage assets in accordance with the investment objectives and restrictions set forth in the Offering Documents applicable to each Fund. The individual needs of the Investors in the Funds do not provide the basis of investment decisions. Investment advice is provided directly to the Funds and not individually to the Funds’ Investors.

The Adviser will use a range of quantitative tools to identify profit opportunities, construct portfolios in a cost-efficient manner, and manage the overall risk of the portfolio consistent with the aim of producing risk-adjusted returns. The Adviser will use proprietary portfolio construction, risk management and execution tools to construct a portfolio of long and short positions in US and foreign equities and other liquid instruments and to control its overall risk by hedging certain systematic risks.

The Adviser provides advisory services to the following Funds which are organized in a master/feeder structure: Nine Chapters Systematic Master Fund Ltd (“Master Fund”), Nine Chapters Systematic International Fund Ltd (“Offshore Feeder”) and Nine Chapters Systematic US Fund LLC (“Onshore Feeder”).

NCCM uses an independent third party fund administrator (the “Administrator”) to provide middle and back office services to the Funds.

As of December 31, 2012 NCCM provides advisory services to \$1,512,650,252 in regulatory assets under management on a discretionary basis to the Funds.

## Item 5: Fees and Compensation

The Adviser's fees are set forth in each Fund's Offering Documents and are described in the advisory contracts it enters into with the Funds. All of NCCM's Clients are "qualified purchasers" (as defined in Section 2(a)(51) of the Investment Company Act, as amended).

Compensation received by NCCM from the Funds is generally comprised of fees based on a percentage of assets under management and performance-based amounts. The Adviser will receive an asset based management fee, depending on the class offered, of the aggregate fair market value of the relevant Fund's net assets, although reductions may be negotiated with Investors on a case-by-case basis. Management fees are deducted monthly in advance.

NCCM or its affiliates is entitled to receive performance-based compensation from the Master Fund equal to a percentage of the net realized and unrealized appreciation, if any, in the net asset value of the shares of the Master Fund. The performance-based compensation is calculated and deducted at the end of each calendar quarter. The Administrator arranges the payment of management and performance-based compensation. The performance-based compensation payable or allocable to NCCM or its affiliates is subject to a "high watermark".

The Funds bear their own expenses, including but not limited to, the fees payable to the Administrator, its legal, accounting, administrative expenses, auditing, tax preparation and other professional expenses, research expenses, filing fees and expenses, custodial fees, bank services fees, the fees and expenses of the Directors, indemnification obligations, the costs of printing and distributing periodic and annual reports and statements, expenses relating to updating Fund disclosure materials or terms of investment, interest on any indebtedness and other borrowing charges and the costs of brokerage services.

The Master Fund will pay brokerage commissions (including those on options and futures trades), spreads, mark-ups on securities, swaps and forwards, short dividends, currency hedging costs, interest expenses in respect of margin accounts, repurchase agreements and other indebtedness and other transaction fees and costs in connection with its investments and trading, including all of the commissions, fees and expenses charged by the prime brokers. The Onshore Feeder and Offshore Feeder generally bear their *pro rata* share of these costs indirectly as an Investor in the Master Fund.

NCCM may also allocate a portion of the Funds' capital to money market funds, exchange-traded funds and other products that pay fees to their respective managers. In addition to the fees and expenses discussed above, the Funds will indirectly incur similar fees and expenses if NCCM invests their capital in such products, as these vehicles in turn pay similar fees and expenses to their investment managers and other service providers.

Investors should review all fees charged by NCCM, its affiliates, and others to fully understand the total amount of fees to be paid by the Funds.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

As described in Item 5 above, performance-based compensation, if any, will be paid to NCCM or affiliates by the Master Fund. The Adviser, at its discretion, may waive all or a portion of the performance-based compensation. With a performance-based compensation arrangement, the Adviser or affiliates may receive compensation based on a share of the capital appreciation of the assets of a Client. Since the performance-based compensation will be determined on both realized and unrealized gains, NCCM or affiliates may receive performance-based compensation reflecting unrealized gains at the end of a quarter that are not subsequently recognized by the Fund. The receipt of performance-based compensation may lead the Adviser to make riskier or more speculative investment decisions than they otherwise would in the absence of such compensation.

The Adviser, in conjunction with the Administrator, will be responsible for valuing the securities held by the Funds (using readily available market quotations and other commonly used and recognized methods) and will be responsible for the determination of asset valuations for all purposes including the determination of the management fee and the performance allocation.

## **Item 7: Types of Clients**

NCCM provides advisory services to the Funds. The Funds are private investment funds offered under Regulation D of the Securities Act of 1933 and exempt from registration under Section 3(c) of the Investment Company Act.

Although NCCM has the authority to accept subscriptions for any lesser amount, the minimum investment in the Funds is generally \$5,000,000. Each Investor is required to meet certain suitability qualifications, such as, a “qualified purchaser” as defined in the Investment Company Act. In addition, each U.S. Investor must also satisfy the suitability requirements under Rule 205-3 under the Advisers Act, which prescribes certain requirements which must be satisfied in connection with the Adviser’s or affiliate’s receipt of performance-based compensation.

Details concerning applicable suitability criteria are set forth in the respective Funds’ Offering Documents.

NCCM may enter into side letter agreements with certain Investors pursuant to which they may provide such Investors with preferential terms with respect to their investment in the Funds, including, without limitation, with respect to management fees, performance-based compensation, withdrawal terms (including the frequency of withdrawals and/or required notice periods) and/or transparency (including portfolio transparency).

## **Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss**

### **Methods of Analysts and Investment Strategies**

The Funds are alternative investment vehicles that will take long and short positions primarily in equities and other liquid financial instruments by combining multiple trading strategies designed to generate return through long-term and short-term market price patterns. The principal investment objective of the Funds is to achieve consistent and risk-adjusted investment returns through research-driven and quantitative methods that seek to maximize the ratio of returns to risk. While the Fund will initially focus on U.S. equities and related instruments, it may in the future expand to other regions, including but not limited to Europe, Asia Pacific and Latin America, including certain emerging markets. NCCM will use proprietary portfolio construction, risk management and execution tools to construct a portfolio of long and short positions in equities and other liquid instruments and to control its overall risk by hedging certain systematic risks. The Funds will also trade currency forwards to hedge currency risk. As is further described herein, the Funds generally employ leverage in pursuing their investment strategies.

In evaluating trading decisions, the Adviser uses a trading system employing mathematical analysis of certain technical data regarding past market performance. Opportunities presented by this strategy often involve frequent trading, which may generate higher brokerage and tax expenses than other investment strategies.

### **Risk of Loss**

As a general matter, investing in securities involves a risk of loss that Investors should be prepared to bear. Moreover, and as explained more fully in each Fund's Offering Documents, the specialized investment program of each Fund involves a substantial degree of risk. The investment strategy offered by the Adviser could lose money over short or even long periods. Performance could be hurt by a number of different market risks including but not limited to:

- Stock market risk, which is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.
- Sector risk, which is the chance that significant problems will affect a particular sector, or that returns from that sector will trail returns from the overall stock market. Daily fluctuations in specific market sectors are often more extreme than fluctuations in the overall market.

### **Leverage**

The Funds generally employ leverage as part of its investment strategy. Neither the Fund nor the Master Fund has any formal borrowing limits or other limits on their ability to utilize leverage. Losses incurred on the Funds' leveraged investments will increase in direct proportion to the degree of leverage employed. The Funds also incur interest expense on the borrowings used to

leverage its positions. The use of leverage also may result in the forced liquidation of positions (which may otherwise have been profitable) as a result of margin or collateral calls.

As a general matter, the banks and dealers that provide financing to the Fund can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks and dealers in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that the Fund will be able to secure or maintain adequate financing, without which the Fund may not be a viable investment.

### Short Sales

The Funds sell securities short. A short sale is effected by selling a security which the Fund does not own. In order to make delivery to the buyer of a security sold short, the Fund must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The Fund must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Fund. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by the Fund. Furthermore, the Fund may prematurely be forced to close out a short position if a counterparty from which the Fund borrowed securities demands their return, resulting in a loss on what might otherwise have been ultimately a profitable position.

The U.S. government and certain non-U.S. jurisdictions have at times taken measures to impose restrictions on the ability of investors to enter into short sales, including a complete prohibition on taking short positions in respect of certain issuers. Such restrictions may negatively affect the ability of the Fund to implement its strategies. It cannot be determined how future regulations may limit the Fund's ability to engage in short selling and how such limitations may impact the Fund's performance.

### Evolving and New Investment Approaches

The Adviser's investment approach and trading techniques and models are continually evolving. The techniques, strategies, models and approaches developed by the Adviser may not be successful and may therefore lead to losses. In addition, the resources devoted to the implementation of new techniques, strategies, models and approaches may diminish the effectiveness of the Adviser's implementation of the Adviser's established techniques, strategies, models and approaches.

### Master-Feeder Structure

The Funds generally invests through a “master-feeder” structure. The “master-feeder” fund structure presents certain unique risks to investors. For example, a smaller fund investing in the Master Fund may be materially affected by the actions of a larger feeder fund. If a larger feeder fund withdraws from the Master Fund, the remaining feeder fund may experience higher *pro rata* operating expenses, thereby providing lower returns. The Master Fund may become less diverse due to redemption by a larger feeder fund, resulting in increased portfolio risk. The Master Fund is a single entity and creditors of the Master Fund may enforce claims against all of the assets of the Master Fund.

These and other investment risks are described in additional detail in the Funds’ Offering Documents.

## **Item 9: Disciplinary Information**

NCCM and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to an Investor’s evaluation of the company or its personnel.

## **Item 10: Other Financial Industry Activities and Affiliations**

Nine Chapters Capital GP, LLC (“Managing Member”) acts as the Managing Member of the Onshore Fund. While the Managing Member is not separately registered as an investment adviser with the SEC, all of its investment advisory activities are subject to the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and the rules thereunder. In addition, employees and persons acting on behalf of the Managing Member, if any, are subject to the supervision and control of NCCM.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

NCCM has adopted a written Code of Ethics (the “Code”) that is applicable to all employees. Among other things, the Code requires NCCM and its employees to act in Clients’ best interests, abide by all applicable regulations, avoid even the appearance of insider trading, pre-clear and report on many types of personal securities transactions. Certain personal securities transactions are subject to a minimum holding period. NCCM’s restrictions on personal securities trading apply to employees, as well as employees’ family members living in the same household.

Employees must pre-clear all personal securities transactions, including IPO’s and securities obtained through a private placement, before completing the transactions. NCCM may disapprove any proposed transaction, particularly if the transaction poses a conflict of interest. Employees are also required to provide quarterly reports regarding transactions and holdings in “Reportable Securities” as defined in the Advisers Act. Employees must disclose all personal trading accounts initially upon commencement of employment and annually thereafter.



NCCM will supply a complete copy of its Code to any Investor or prospective Investor who requests a copy of the Code by contacting Peter J. Myers by email at [peter.myers@ninechapterscm.com](mailto:peter.myers@ninechapterscm.com) or by telephone at 973-218-9837.

## **Item 12: Brokerage Practices**

The Master Fund uses a prime broker for brokerage and custody services. The prime broker may provide additional services to the Adviser and the Funds that they would not otherwise receive if they were not a prime brokerage customer, including capital introduction services.

### *Soft Dollar Benefits*

NCCM will not receive any "soft dollar" benefits from brokers. If in the future NCCM determines that it will accept research, it will pay using hard dollars, or soft dollars in accordance with Section 28(e) of the Securities Exchange Act of 1934, as amended. It will be disclosed to Investors and it will be generally used for the benefit of all Clients.

### *The Selection of Trading Counterparties*

Securities transactions will be executed through brokers selected by NCCM in its sole discretion and without the consent of Investors. In placing portfolio transactions, NCCM will seek to obtain the best execution for the Clients, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the broker's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying NCCM's other selection criteria.

### *Best Execution Reviews*

On a semi-annual basis, NCCM will review the execution achieved from its counterparties to ensure that it is receiving best execution of Client transactions.

In selecting a broker-dealer, the Adviser uses its reasonable efforts to obtain best price and best execution and may take into account such relevant factors (among others) as (i) price, (ii) the broker-dealer's facilities, reliability and financial responsibility, (iii) the ability of the broker-dealer to effect securities transactions, particularly with regard to such aspects as timing, order size and execution of orders, (iv) the research, brokerage and other services provided by such broker-dealer to the Adviser, (v) the broker's willingness to provide Soft Dollar Services and (vi) the financing rates that the broker-dealer provides. Accordingly, the Adviser may cause the Funds to pay a broker-dealer that provides brokerage services (either directly or through third-party relationships) an amount of commission or transaction cost in excess of that which another broker-dealer would have charged, if the Adviser determines in good faith that such

commission or transaction cost is reasonable in relation to the value of brokerage, research or other services provided.

#### Aggregated Trades

NCCM will conduct all trading at the Master Fund level, as such trades will be aggregated for the Onshore Feeder and Offshore Feeder funds. Profit and loss will be allocated among the Onshore Feeder and Offshore Feeder funds pro rata based on the relative AUM of each fund.

#### Trading Errors

Given the nature of its strategy, the Adviser believes that trade errors are a known cost of doing business. Therefore, it has adopted a policy under which the Funds will generally bear the losses of any trade errors (as well as benefit from any profits derived from trade errors). However, the Adviser will reimburse the Funds for any material losses resulting from any trade error due to the Adviser's gross negligence or willful misconduct.

#### Client Referrals

NCCM does not consider the referral of Clients and Investors in the selection of counterparties.

### **Item 13: Review of Accounts**

Reviews of Client accounts occur on a daily basis. These reviews include an assessment of: the valuations of the individual securities within the portfolio, the portfolio weightings of individual positions, the level of available cash and equivalents, and the various industry concentrations. The goal of these reviews is to keep the individual portfolios invested in securities that will create long term value for the Client.

In addition, all accounts are reviewed in light of emerging trends and developments as well as market volatility.

The Administrator will provide account statements to all Investors on a monthly basis which include detailed account balances and return information for the period. In addition, on an annual basis, Investors will be provided with audited financial statements of the applicable Onshore Feeder and Offshore Feeder fund which are audited by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Investors in the Onshore Feeder will also receive annual copies of its Schedule K-1. In addition, Investors may also request telephone calls or in-person meetings to discuss their investment in the Funds.

### **Item 14: Client Referrals and Other Compensation**

NCCM does not compensate any person for Client referrals nor does it offer or receive sales awards or prizes for providing investment advice to Clients.

NCCM does not receive any other economic benefits from non-clients in connection with the provision of investment advice to Clients.

### **Item 15: Custody**

All Clients' accounts are held in custody by unaffiliated broker/dealers or banks, but the Adviser can access many client funds through its ability to debit advisory fees. For this reason the Adviser may be considered to have custody of Client assets. Investors will not receive statements from the custodian. Instead the Private Funds are subject to an annual audit and the audited financial statements are distributed to each Investor. The audited financial statements will be prepared in accordance with Generally Accepted Accounting Principles and distributed within 120 days of the Funds' fiscal year end.

### **Item 16: Investment Discretion**

NCCM has investment discretion over all Clients' accounts.

### **Item 17: Voting Client Securities**

Due to the nature of NCCM's advisory services, and more specifically because the Adviser normally follows a short-term, quantitative and systematic trading strategy, NCCM has determined that the outcome of any proxy contests will not have any impact on the Adviser's trading strategy or investment decision making for Client accounts. Therefore, the Adviser has determined that the cost to Investors of tracking and voting proxies held in the Funds is higher than the benefit obtained by Investors for doing so. Therefore, the Adviser will not vote proxies for securities held by clients.

From time to time, NCCM will review its position with regard to the voting of Client proxies. Should the Adviser determine that the costs of voting are outweighed by the benefits to be obtained by Clients, NCCM reserves the right to change its policy.

### **Item 18: Financial Information**

NCCM has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage Client accounts.