

# **Artificial Intelligence Capital Management LLC**

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## **FORM ADV PART 2A BROCHURE**

This brochure provides information about the qualifications and business practices of Artificial Intelligence Capital Management LLC. If you have any questions about the contents of this brochure, contact us at 617-545-7171. 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 Artificial Intelligence Capital Management LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Artificial Intelligence Capital Management LLC is a registered investment adviser. Registration with the United States Securities and Exchange Commission or any state securities authority does not imply a certain level of skill or training.

## **Item 2 Summary of Material Changes**

Form ADV Part 2 requires registered investment advisers to amend their brochure when information becomes materially inaccurate. If there are any material changes to an adviser's disclosure brochure, the adviser is required to notify you and provide you with a description of the material changes.

Since the initial approval of our registration on January 4, 2016 we have had no material changes to our Brochure.

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## Item 4 Advisory Business

### Description of Firm

Artificial Intelligence Capital Management LLC is a registered investment adviser primarily based in North Reading, Massachusetts. We are organized as a limited liability company ("LLC") under the laws of the State of Delaware. We have been providing investment advisory services since 2016. We are primarily owned by Marc Peter Stein.

The following paragraphs describe our services and fees. Refer to the description of each investment advisory service listed below for information on how we tailor our advisory services to your individual needs. As used in this brochure, the words "we," "our," and "us" refer to Artificial Intelligence Capital Management LLC and the words "you," "your," and "client" refer to you as either a client or prospective client of our firm.

Artificial Intelligence Capital Management LLC utilizes machine learning algorithms to implement a fully automated system for purchasing fractional peer lending assets on behalf of clients solely through an autonomous web service. Peer Lending facilitates loans to borrowers who obtain the loans through platforms such as Lending Club or Prosper Marketplace (hereinafter referred to as the "Platforms") at terms they find more attractive than those offered by traditional banks or credit cards. Loans are funded by our clients and thereby avoid the cost and complexity of traditional banking. Loans to borrowers are structured in the form of Notes and generally our algorithm will have clients invest in hundreds, or thousands, of Notes to diversify and benefit from more consistent performance. Artificial Intelligence Capital Management LLC's algorithm assists you, as the lender, in selecting and managing a portfolio of loans that fits your investment objectives. We provide automated investing in the Notes, based on a proprietary model, criteria you specify or a mix of both. Investing may occur in the primary market, with loans that are under issuance, or on the secondary market, with loans that were issued previously that are bought from other investors. We may also provide the option to automatically put Notes for sale on the secondary market, and to automatically lower their ask price based on other criteria. In order to invest your funds in the Notes, we require that you give us discretionary authority to manage your account. Discretionary authorization will allow us to determine the specific loans, or Notes, to invest in as well as the amount of money to be invested in each loan and the number of loans to fund without your approval prior to each transaction, or the loans to sell and their selling price. Discretionary authority is typically granted by the investment advisory agreement you sign with our firm and the appropriate trading authorization forms. You may limit our discretionary authority (for example, limiting the types of loans that can be funded from your account) by setting your parameters.

### Sub-Advisory Services to Registered Investment Advisers

We also offer sub-advisory services to unaffiliated third party money managers (the "Primary Investment Adviser"). As part of these services, we will provide model portfolios, which the Primary Investment Adviser selects for their clients. We will not directly manage the Primary Investment Adviser's individual client accounts. The Primary Investment Adviser will be responsible for selecting the appropriate model for its clients.

### Types of Investments

We offer advice on notes which are fixed-income investments that generate monthly cash flow in the form of payments of principal and interest.

### Assets Under Management

We provide investment advice exclusively through our interactive website to clients but as a newly registered investment adviser, we have no assets under management as of the date of this initial Brochure.

## Item 5 Fees and Compensation

We charge an annual fee of 2.00% of the Client's account value billed on a quarterly basis (e.g., 0.50% each quarter). This fee is negotiable depending on the Client's facts and circumstances. We base our fee on the average daily balance of your account.

We will provide you with a statement detailing the fee. Our fees are due upon receipt of the invoice. The qualified custodian is responsible for providing you with account statements detailing the activity in your account. These account statements will be provided in accordance with the terms disclosed by the custodian in their disclosure documents. You should review all statements for accuracy.

You may terminate the portfolio management agreement at any time by closing your account on our website. When you terminate the agreement, we will only charge you the fees that accumulated since your last billing cycle.

We do not require prepayment of a fee more than six months in advance and in excess of \$1,200.

### **Sub-Advisory Services for Registered Investment Advisers**

Fees and payment arrangements are negotiable and will vary on a case-by-case basis.

### **Additional Fees and Expenses**

The fees that you pay to our firm for investment advisory services are separate and distinct from any fees and expenses charged by the Platform(s). You will generally incur transaction charges and/or other fees imposed by the Platform, broker/dealer or custodian through whom your account transactions are executed. We do not share in any portion of the charges imposed by the Platform, broker/dealer or custodian. To fully understand the total cost you will incur, you should review all the fees charged by the Platform, broker/dealer or custodian.

## Item 6 Performance-Based Fees and Side-By-Side Management

We charge performance-based fees to "qualified clients" having a net worth greater than \$2,000,000 or for whom we manage at least \$1,000,000 immediately after entering an agreement for our services. Performance-based fees are fees based on a share of capital gains or capital appreciation of a client's account. The performance fee is generally equal to 20% of the applicable account's net capital appreciation per annum, subject to a "blended hurdle rate" equal to the base expected rate of return of invested assets as published on Lending Club's website. For example, if an account consists solely of class E assets with an expected return of 9.55%, then the performance on the account must exceed 9.55% to trigger the payment of a performance fee. The payment of a performance fee shall not cause the rate of return to drop below the hurdle rate. In other words, the blended hurdle is calculated on all profits if the hurdle is achieved; however, if the hurdle rate is achieved, the return to investors cannot dip below the hurdle rate. Fees will be adjusted for deposits and withdrawals made during the 12-month period. In the event the client makes a complete withdrawal from the account on a date other than year-end, fees will be due at the time of withdrawal. Refer to the *Fees and Compensation* section above for additional information on this topic.

We manage accounts that are charged performance-based fees while at the same time managing accounts (perhaps with similar objectives) that are not charged performance-based fees ("side-by-side management"). Performance-based fees and side-by-side management create conflicts of interest, which we have identified and described in the following paragraphs.

Performance-based fees create an incentive for our firm to make investments that are riskier or more speculative than would be the case absent a performance fee arrangement. In order to address this potential conflict of interest, a senior officer of our firm periodically reviews client accounts to ensure that investments are suitable and that the account is being managed according to the client's investment objectives and risk tolerance.

Side-by-side management might provide an incentive for our firm to favor accounts for which we receive a performance-based fee. For example, we may have an incentive to allocate limited investment opportunities, such as initial public offerings, to clients who are charged performance-based fees over clients who are charged asset based fees only. To address this conflict of interest, we have instituted policies and procedures that require our firm to allocate investment opportunities (if they are suitable) in an effort to avoid favoritism among our clients, regardless of whether the client is charged performance fees.

## Item 7 Types of Clients

We offer investment advisory services to high net worth individuals, pooled investment vehicles (other than investment companies) and other investment advisers.

In general, we require a minimum of \$250,000 to open and maintain an account. At our discretion, we may waive this minimum account size. For example, we may waive the minimum if you appear to have significant potential for increasing your assets under our management.

We may also combine account values for you and your minor children, joint accounts with your spouse, and other types of related accounts to meet the stated minimum.

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

We may use one or more of the following methods of analysis or investment strategies when providing investment advice to you:

**Long-Term Purchases** - securities purchased with the expectation that the value of those securities will grow over a relatively long period of time, generally greater than one year. More specifically, in the case of Peer Funding Loans, the assets are in the form of 36 month and 60 month term notes. Notes can be paid off prior to maturity, but as a rule these assets are for long term investment and will yield monthly income, but clients should expect that their capital will remain largely illiquid for the term of the individual notes.

- **Risk:** Using a long-term purchase strategy generally assumes the financial markets will go up in the long-term which may not be the case. There is also the risk that the segment of the market that you are invested in or perhaps just your particular investment will go down over time even if the overall financial markets advance. Purchasing investments long-term may create an opportunity cost - "locking-up" assets that may be better utilized in the short-term in other investments.

Our investment strategies and advice may vary depending upon each client's specific financial situation. As such, we determine investments and allocations based upon your predefined objectives, risk tolerance, time horizon, financial information, liquidity needs and other various suitability factors. Your restrictions and guidelines may affect the composition of your portfolio. **It is important that you**

**notify us immediately with respect to any material changes to your financial circumstances, including for example, a change in your current or expected income level, tax circumstances, or employment status.**

### **Tax Considerations**

Our strategies and investments may have unique and significant tax implications. However, unless we specifically agree otherwise, and in writing, tax efficiency is not our primary consideration in the management of your assets. Regardless of your account size or any other factors, we strongly recommend that you consult with a tax professional regarding the investing of your assets.

Moreover, custodians and broker-dealers must report the cost basis of equities acquired in client accounts on or after January 1, 2011. Your custodian will default to the First-In First-Out ("FIFO") accounting method for calculating the cost basis of your investments. You are responsible for contacting your tax advisor to determine if this accounting method is the right choice for you. If your tax advisor believes another accounting method is more advantageous, provide written notice to our firm immediately and we will alert your account custodian of your individually selected accounting method. Decisions about cost basis accounting methods will need to be made before trades settle, as the cost basis method cannot be changed after settlement.

### **Risk of Loss**

Investing in securities involves risk of loss that you should be prepared to bear. We do not represent or guarantee that our services or methods of analysis can or will predict future results, successfully identify market tops or bottoms, or insulate clients from losses due to market corrections or declines. We cannot offer any guarantees or promises that your financial goals and objectives will be met. Past performance is in no way an indication of future performance.

### **Recommendation of Particular Types of Securities**

As disclosed under the Advisory Business section in this brochure, we only provide advisory services regarding notes which are fixed income investments that generate monthly cash flow in the form of payments of principal and interest.

## **Item 9 Disciplinary Information**

We are required to disclose the facts of any legal or disciplinary events that are material to a client's evaluation of our advisory business or the integrity of our management. We do not have any required disclosures under this item.

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

We have not provided information on other financial industry activities and affiliations because we do not have any relationship or arrangement that is material to our advisory business or to our clients with any of the types of entities listed below.

1. broker-dealer, municipal securities dealer, or government securities dealer or broker.
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund," and offshore fund).
3. other investment adviser or financial planner.
4. futures commission merchant, commodity pool operator, or commodity trading advisor.
5. banking or thrift institution.
6. accountant or accounting firm.
7. lawyer or law firm.

8. insurance company or agency.
9. pension consultant.
10. real estate broker or dealer.
11. sponsor or syndicator of limited partnerships.

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

### **Description of Our Code of Ethics**

We strive to comply with applicable laws and regulations governing our practices. Therefore, our Code of Ethics includes guidelines for professional standards of conduct for persons associated with our firm. Our goal is to protect your interests at all times and to demonstrate our commitment to our fiduciary duties of honesty, good faith, and fair dealing with you. All persons associated with our firm are expected to adhere strictly to these guidelines. Persons associated with our firm are also required to report any violations of our Code of Ethics. Additionally, we maintain and enforce written policies reasonably designed to prevent the misuse or dissemination of material, non-public information about you or your account holdings by persons associated with our firm.

Clients or prospective clients may obtain a copy of our Code of Ethics by contacting us at the telephone number on the cover page of this brochure.

### **Participation or Interest in Client Transactions**

Neither our firm nor any persons associated with our firm has any material financial interest in client transactions beyond the provision of investment advisory services as disclosed in this brochure.

### **Personal Trading Practices**

Our firm or persons associated with our firm may buy or sell the same securities that we recommend to you or securities in which you are already invested. A conflict of interest exists in such cases because we have the ability to trade ahead of you and potentially receive more favorable prices than you will receive. To mitigate this conflict of interest, it is our policy that neither our firm nor persons associated with our firm shall have priority over your account in the purchase or sale of securities.

## **Item 12 Brokerage Practices**

We maintain relationships with several Peer Lending Platforms. We require that you establish an account with one of the Platforms with which we have an existing relationship. Such relationships may include benefits provided to our firm, including but not limited to market information and administrative services that help our firm manage your account(s). We believe that the Platforms we use provide quality services for our clients. In reviewing the Platforms we refer clients to we consider the quality of the services provided by the Platforms, including the value of the firm's reputation, execution capabilities, fees, and responsiveness to our clients and our firm. In recognition of the value of the services the Platforms provide, you may pay higher transaction costs than those that may be available elsewhere.

### **Research and Other Soft Dollar Benefits**

We do not have any soft dollar arrangements.



### **Economic Benefits**

As a registered investment adviser, we have access to the institutional platform of your account custodian. As such, we will also have access to research products and services from your account custodian and/or other brokerage firm or Platform. These products may include financial publications, information about particular companies and industries, research software, and other products or services that provide lawful and appropriate assistance to our firm in the performance of our investment decision-making responsibilities. Such research products and services are provided to all investment advisers that utilize the institutional services platforms of these firms, and are not considered to be paid for with soft dollars. However, you should be aware that the commissions charged by a particular broker for a particular transaction or set of transactions may be greater than the amounts another broker who did not provide research services or products might charge.

### **Brokerage for Client Referrals**

We do not receive client referrals from broker-dealers in exchange for cash or other compensation, such as brokerage services or research.

### **Directed Brokerage**

Since Peer Lending transactions can only be effected through certain Platforms, we do not allow for directed brokerage.

### **Block Trades**

Peer Lending does not permit block trading, and therefore this section does not apply.

## **Item 13 Review of Accounts**

Marc Stein, Managing Member will monitor your accounts on a ongoing basis and will conduct account reviews at least monthly, to ensure the advisory services provided to you are consistent with your investment needs and objectives. Additional reviews may be conducted based on various circumstances, including, but not limited to:

- contributions and withdrawals,
- year-end tax planning,
- market moving events,
- security specific events, and/or,
- changes in your risk/return objectives.

The individuals conducting reviews may vary from time to time, as personnel join or leave our firm.

We will provide you with additional or regular written reports in conjunction with account reviews. Reports we provide to you will contain relevant account and/or market-related information such as an inventory of account holdings and account performance, etc. You will receive trade confirmations and monthly or quarterly statements from your account custodian(s).

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

We do not receive any compensation from any third party in connection with providing investment advice to you nor do we compensate any individual or firm for client referrals.

Refer to the *Brokerage Practices* section above for disclosures on research and other benefits we may receive resulting from our relationship with your account custodian.

## Item 15 Custody

We do not directly debit advisory fees from your account and we do not exercise custody over your funds or securities. Your funds and securities will be held with a bank, broker-dealer, or other qualified custodian. You will receive account statements from the qualified custodian(s) holding your funds and securities. If you have a question regarding your account statement or if you did not receive a statement from your custodian, contact your custodian directly.

## Item 16 Investment Discretion

Before we can buy or sell securities on your behalf, you must first sign our discretionary management agreement and the appropriate trading authorization forms.

You may grant our firm discretion over the selection and amount of securities to be purchased or sold for your account(s) without obtaining your consent or approval prior to each transaction. You may specify investment objectives, guidelines, and/or impose certain conditions or investment parameters for your account(s). For example, you may specify the investment in any particular note grade, platform, or purpose. Refer to the *Advisory Business* section in this brochure for more information on our discretionary management services.

## Item 17 Voting Client Securities

We will not vote proxies on behalf of your advisory accounts. At your request, we may offer you advice regarding corporate actions and the exercise of your proxy voting rights. If you own shares of applicable securities, you are responsible for exercising your right to vote as a shareholder.

In most cases, you will receive proxy materials directly from the account custodian. However, in the event we were to receive any written or electronic proxy materials, we would forward them directly to you by mail, unless you have authorized our firm to contact you by electronic mail, in which case, we would forward any electronic solicitations to vote proxies.

## Item 18 Financial Information

We are not required to provide a balance sheet or other financial information to our clients because we do not require the prepayment of fees in excess of \$1,200 and six months or more in advance; we do not take custody of client funds or securities; and, we do not have a financial condition that is reasonably likely to impair our ability to meet our commitments to you. Moreover, we have never been the subject of a bankruptcy petition.

## Item 19 Requirements for State-Registered Advisers

We are a federally registered investment adviser; therefore, we are not required to respond to this item.

## **Item 20 Additional Information**

### **Your Privacy**

We view protecting your private information as a top priority. Pursuant to applicable privacy requirements, we have instituted policies and procedures to ensure that we keep your personal information private and secure.

We do not disclose any nonpublic personal information about you to any non-affiliated third parties, except as permitted by law. In the course of servicing your account, we may share some information with our service providers, such as transfer agents, custodians, broker-dealers, accountants, consultants, and attorneys.

We restrict internal access to nonpublic personal information about you to employees, who need that information in order to provide products or services to you. We maintain physical and procedural safeguards that comply with regulatory standards to guard your nonpublic personal information and to ensure our integrity and confidentiality. We will not sell information about you or your accounts to anyone. We do not share your information unless it is required to process a transaction, at your request, or required by law.

You will receive a copy of our privacy notice prior to or at the time you sign an advisory agreement with our firm. Thereafter, we will deliver a copy of the current privacy policy notice to you on an annual basis. Contact our main office at the telephone number on the cover page of this brochure if you have any questions regarding this policy.

If you decide to close your account(s) we will adhere to our privacy policies, which may be amended from time to time.

If we make any substantive changes in our privacy policy that would further permit or require disclosures of your private information, we will provide written notice to you. Where the change is based on permitted disclosures, you will be given an opportunity to direct us as to whether such disclosure is acceptable. Where the change is based on required disclosures, you will only receive written notice of the change. You may not opt out of the required disclosures.

If you have questions about our privacy policies contact our main office at the telephone number on the cover page of this brochure and ask to speak to the Chief Compliance Officer.

### **Trade Errors**

In the event a trading error occurs in your account, our policy is to restore your account to the position it should have been in had the trading error not occurred. Depending on the circumstances, corrective actions may include canceling the trade, adjusting an allocation, and/or reimbursing the account.

### **Class Action Lawsuits**

We do not determine if securities held by you are the subject of a class action lawsuit or whether you are eligible to participate in class action settlements or litigation nor do we initiate or participate in litigation to recover damages on your behalf for injuries as a result of actions, misconduct, or negligence by issuers of securities held by you.