

# DeepCurrents Investment Group LLC

## Firm Brochure - Form ADV Part 2A

*This brochure provides information about the qualifications and business practices of DeepCurrents Investment Group LLC. If you have any questions about the contents of this brochure, please contact us at (203) 742-7709 or by email at: [info@deepcurrentsinvestment.com](mailto:info@deepcurrentsinvestment.com). 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.*

*DeepCurrents Investment Group LLC's registration with the SEC does not imply that any of its principals or employees possess a particular level of skill or training in the investment advisory business or any other business.*

*Additional information about DeepCurrents Investment Group LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). DeepCurrents Investment Group LLC's CRD number is: 288159.*

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## **Item 2: Material Changes**

This is DeepCurrents Investment Group LLC initial Form ADV Part 2A, therefore there are no material changes to report.

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## Item 4: Advisory Business

DeepCurrents Investment Group LLC (hereinafter “DCIG”) is a Limited Liability Company organized in the State of Delaware. The firm was formed in September 2016, and the principal owner is Kai (Steve) Zheng.

DCIG will act as a sub-adviser to a private investment fund (the “Managed Account”). The Managed Account is governed by an investment management agreement and other agreements which set forth certain guidelines or restrictions related to DCIG’s activities with respect to the Managed Account. DCIG has limited authority with respect to the Managed Account. For example, DCIG (i) does not have custody of assets held in the Managed Account, (ii) cannot determine the final value of the Managed Account’s positions, (iii) cannot transfer cash or securities out of the Managed Account, and (iv) cannot enter into any agreements on behalf of the Managed Account.

The manager will receive a pre-negotiated management fee, payable quarterly, and a performance based fee, payable annually, for the investment management services provided to the Managed Account, as determined in accordance with the investment management agreement.

### *Services Limited to Specific Types of Investments*

DCIG generally limits its investment advice to fixed income securities, equities, ETFs, options, non-U.S. securities and private placements. DCIG may use other securities as well to help diversify its portfolio when applicable.

DCIG offers the same suite of services to all of its clients. However, specific client investment strategies and their implementation are dependent upon the client’s current situation (income, tax levels, and risk tolerance levels). Clients may not impose restrictions in investing in certain securities or types of securities in accordance with their values or beliefs.

DCIG has the following assets under management:

Discretionary Amounts:	Non-discretionary Amounts:	Date Calculated:
\$0	\$0	March 2017

## Item 5: Fees and Compensation

DCIG will receive a pre-negotiated management fee, payable quarterly, and a performance based fee, payable annually, for sub-advising the Managed Account. The fees received are calculated as set forth the agreement between DCIG and the Managed Account and its manager.

Clients are responsible for the payment of all third-party fees (*i.e.* custodian fees, brokerage fees, mutual fund fees, transaction fees, etc.). Those fees are separate and distinct from the fees and expenses charged by DCIG. Please see Item 12 of this brochure regarding broker-dealer/custodian.

Neither DCIG nor its supervised persons accept any compensation for the sale of investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

DCIG manages accounts that are billed on performance-based fees (a share of capital gains on or capital appreciation of the assets of a client) and may manage accounts that are not billed on performance-based fees. DCIG seeks best execution and upholds its fiduciary duty for all clients. Clients paying a performance-based fee should be aware that investment advisers have an incentive to invest in riskier investments when paid a performance-based fee due to the higher risk/higher reward attributes.

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

DCIG currently provides advisory services only to Pooled Investment Vehicles.

There is no account minimum for any of DCIG's services.

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

### **A. Methods of Analysis and Investment Strategies**

#### ***Methods of Analysis***

DCIG's methods of analysis include Charting analysis, Cyclical analysis, Fundamental analysis, Modern portfolio theory, Quantitative analysis and Technical analysis.

**Charting analysis** involves the use of patterns in performance charts. DCIG uses this technique to search for patterns used to help predict favorable conditions for buying and/or selling a security.

**Cyclical analysis** involves the analysis of business cycles to find favorable conditions for buying and/or selling a security.

**Fundamental analysis** involves the analysis of financial statements, the general financial health of companies, and/or the analysis of management or competitive advantages.

**Modern portfolio theory** is a theory of investment that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, each by carefully choosing the proportions of various asset.

**Quantitative analysis** deals with measurable factors as distinguished from qualitative considerations such as the character of management or the state of employee morale, such as the value of assets, the cost of capital, historical projections of sales, and so on.

**Technical analysis** involves the analysis of past market data; primarily price and volume.

### *Investment Strategies*

DCIG recommends long term trading, short term trading, short sales, margin transactions and options trading (including covered options, uncovered options, or spreading strategies).

## **B. Material Risks Involved**

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear. Below are certain risks associated with the methods we use to analyze trades that we believe are very important for you to consider.**

### *Methods of Analysis*

**Charting analysis** strategy involves using and comparing various charts to predict long and short term performance or market trends. The risk involved in using this method is that only past performance data is considered without using other methods to crosscheck data. Using charting analysis without other methods of analysis would be making the assumption that past performance will be indicative of future performance. This may not be the case.

**Cyclical analysis** assumes that the markets react in cyclical patterns which, once identified, can be leveraged to provide performance. The risks with this strategy are two-fold: 1) the markets do not always repeat cyclical patterns; and 2) if too many investors begin to implement this strategy, then it changes the very cycles these investors are trying to exploit.

**Fundamental analysis** concentrates on factors that determine a company's value and expected future earnings. This strategy would normally encourage equity purchases in stocks that are undervalued or priced below their perceived value. The risk assumed is that the market will fail to reach expectations of perceived value.

**Modern portfolio theory** assumes that investors are risk averse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor will take on increased risk only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics. The implication is that a rational investor will not invest

in a portfolio if a second portfolio exists with a more favorable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists which has better expected returns.

**Quantitative analysis** Investment strategies using quantitative models may perform differently than expected as a result of, among other things, the factors used in the models, the weight placed on each factor, changes from the factors' historical trends, and technical issues in the construction and implementation of the models.

**Technical analysis** attempts to predict a future stock price or direction based on market trends. The assumption is that the market follows discernible patterns and if these patterns can be identified then a prediction can be made. The risk is that markets do not always follow patterns and relying solely on this method may not take into account new patterns that emerge over time.

### *Investment Strategies*

DCIG's recommendation of short sales, margin transactions and options trading generally holds greater risk, and clients should be aware that there is a material risk of loss using any of those strategies.

**Long term trading** is designed to capture market rates of both return and risk. Due to its nature, the long-term investment strategy can expose clients to various types of risk that will typically surface at various intervals during the time the client owns the investments. These risks include but are not limited to inflation (purchasing power) risk, interest rate risk, economic risk, market risk, and political/regulatory risk.

**Margin transactions** use leverage that is borrowed from a brokerage firm as collateral. When losses occur, the value of the margin account may fall below the brokerage firm's threshold thereby triggering a margin call. This may force the account holder to either allocate more funds to the account or sell assets on a shorter time frame than desired.

**Options transactions** involve a contract to purchase a security at a given price, not necessarily at market value, depending on the market. This strategy includes the risk that an option may expire out of the money resulting in minimal or no value, as well as the possibility of leveraged loss of trading capital due to the leveraged nature of stock options.

**Short sales** entail the possibility of infinite loss. An increase in the applicable securities' prices will result in a loss and, over time, the market has historically trended upward.

**Short term trading** risks include liquidity, economic stability, and inflation, in addition to the long term trading risks listed above. Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

## **C. Risks of Specific Securities Utilized**

**Investing in securities involves a risk of loss that you, as a client, should be prepared to bear. Below are certain risks associated with the securities we often trade that we believe are very important for you to consider.**

DCIG's recommendation of short sales, margin transactions and options trading generally holds greater risk of capital loss. Clients should be aware that there is a material risk of loss using any investment strategy. The investment types listed below are not guaranteed or insured by the FDIC or any other government agency.

**Equity** investment generally refers to buying shares of stocks in return for receiving a future payment of dividends and/or capital gains if the value of the stock increases. The value of equity securities may fluctuate in response to specific situations for each company, industry conditions and the general economic environments.

**Fixed income** investments generally pay a return on a fixed schedule, though the amount of the payments can vary. This type of investment can include corporate and government debt securities, leveraged loans, high yield, and investment grade debt and structured products, such as mortgage and other asset-backed securities, although individual bonds may be the best known type of fixed income security. In general, the fixed income market is volatile and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. The risk of default on treasury inflation protected/inflation linked bonds is dependent upon the U.S. Treasury defaulting (extremely unlikely); however, they carry a potential risk of losing share price value, albeit rather minimal. Risks of investing in foreign fixed income securities also include the general risk of non-U.S. investing described below.

**Exchange Traded Funds (ETFs):** An ETF is an investment fund traded on stock exchanges, similar to stocks. Investing in ETFs carries the risk of capital loss (sometimes up to a 100% loss in the case of a stock holding bankruptcy). Areas of concern include the lack of transparency in products and increasing complexity, conflicts of interest and the possibility of inadequate regulatory compliance.

**Private placements** carry a substantial risk as they are subject to less regulation than are publicly offered securities, the market to resell these assets under applicable securities laws may be illiquid, due to restrictions, and the liquidation may be taken at a substantial discount to the underlying value or result in the entire loss of the value of such assets.

**Options** are contracts to purchase a security at a given price, risking that an option may expire out of the money resulting in minimal or no value. An uncovered option is a type of options contract that is not backed by an offsetting position that would help mitigate risk. The risk for a "naked" or uncovered put is not unlimited, whereas the potential loss for an uncovered call option is limitless. Spread option positions entail buying and selling multiple options on the same underlying security, but with different strike prices or expiration dates, which helps limit the risk of other option trading strategies. Option transactions also involve risks including but not limited to economic risk, market risk, sector risk, idiosyncratic risk, political/regulatory risk, inflation (purchasing power) risk and interest rate risk.



**Non-U.S.** securities present certain risks such as currency fluctuation, political and economic change, social unrest, changes in government regulation, differences in accounting and the lesser degree of accurate public information available.

**Past performance is not indicative of future results. Investing in securities involves a risk of loss that you, as a client, should be prepared to bear.**

### **Item 9: Disciplinary Information**

There are no criminal or civil actions, administrative proceedings, or self-regulatory organization proceedings to report.

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

Neither DCIG nor its representatives are registered as, or have pending applications to become, a broker/dealer or a representative of a broker/dealer.

Neither DCIG nor its representatives are registered as or have pending applications to become either a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Advisor or an associated person of the foregoing entities.

Neither DCIG nor its representatives have any material relationships to this advisory business that would present a possible conflict of interest.

DCIG does not utilize nor select third-party investment advisers. All assets are managed by DCIG management.

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

DCIG has a written Code of Ethics that covers the following areas: Prohibited Purchases and Sales, Insider Trading, Personal Securities Transactions, Exempted Transactions, Prohibited Activities, Conflicts of Interest, Gifts and Entertainment, Confidentiality, Service on a Board of Directors, Compliance Procedures, Compliance with Laws and Regulations, Procedures and Reporting, Certification of Compliance, Reporting Violations, Compliance Officer Duties, Training and Education, Recordkeeping, Annual Review, and Sanctions. DCIG's Code of Ethics is available free upon request to any client or prospective client.

DCIG does not recommend that clients buy or sell any security in which a related person to DCIG or DCIG has a material financial interest.

From time-to-time, representatives of DCIG may buy or sell securities for themselves that they also recommend to clients. This may provide an opportunity for representatives of DCIG to buy or sell the same securities before or after recommending the same securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest. DCIG will always document any transactions that could be construed as conflicts of interest and will never engage in trading that operates to the client's disadvantage when similar securities are being bought or sold.

From time-to--time, representatives of DCIG may buy or sell securities for themselves at or around the same time as clients. This may provide an opportunity for representatives of DCIG to buy or sell securities before or after recommending securities to clients resulting in representatives profiting off the recommendations they provide to clients. Such transactions may create a conflict of interest; however, DCIG will never engage in trading that operates to the client's disadvantage if representatives of DCIG buy or sell securities at or around the same time as clients.

## **Item 12: Brokerage Practices**

DCIG does not select brokers/custodians. In the case of the Managed Account, its manager determines which brokers/custodians DCIG may use.

### **1. *Research and Other Soft-Dollar Benefits***

DCIG currently does not use "soft dollars". If the DCIG does establish such arrangements in the future, it intends to remain within the safe harbor parameters of Section 28(e) of the Securities Exchange Act of 1934, as amended.

### **2. *Brokerage for Client Referrals***

DCIG receives no referrals from a broker-dealer or third party in exchange for using that broker-dealer or third party.

### **3. *Clients Directing Which Broker/Dealer/Custodian to Use***

Although DCIG does not actually select the brokers/custodians available as counterparties for the Managed Account, it does, as sub-adviser, have discretion to determine which brokers through whom it may execute particular trades, which it exercises in accordance with the procedures and practices established by the manager of Managed Account.

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

All client accounts for DCIG's advisory services provided on an on-going basis are reviewed at least monthly by Kai (Steve) Zheng, Managing Member, with regard to clients' respective investment policies and risk tolerance levels. All accounts at DCIG are assigned to this reviewer.

The custodian or fund administrator delivers to each investor periodic reports.

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

DCIG does not receive any economic benefit, directly or indirectly from any third party for advice rendered to DCIG's clients.

DCIG does not directly or indirectly compensate any person who is not advisory personnel for client referrals.

### **Item 15: Custody**

DCIG may be deemed to have custody over the funds and securities invested in pooled investment vehicles that DCIG manages. DCIG does not have custody of the assets of the Managed Account.

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

DCIG provides discretionary investment advisory services to clients. The advisory contract established with each client sets forth the discretionary authority for trading. Where investment discretion has been granted, DCIG generally manages the client's account and makes investment decisions without consultation with the client as to when the securities are to be bought or sold for the account, the total amount of the securities to be bought/sold, what securities to buy or sell, or the price per share.

### **Item 17: Voting Client Securities (Proxy Voting)**

DCIG acknowledges its fiduciary obligation to vote proxies on behalf of those clients that have delegated to it, or for which it is deemed to have, proxy voting authority. DCIG will vote proxies on behalf of a client solely in the best interest of the relevant client and has established general guidelines for voting proxies. DCIG may also abstain from voting if, based on factors such as expense or difficulty of exercise, it determines that a client's interests are better served by abstaining. Further, because proxy proposals and individual company facts and circumstances may vary, DCIG may vote in a manner that is contrary to the general guidelines if it believes that doing so would be in a client's best interest to do so. If a proxy proposal presents a conflict of

interest between DCIG and a client, then DCIG will disclose the conflict of interest to the client prior to the proxy vote and, if participating in the vote, will vote in accordance with the client's wishes.

Clients may obtain a complete copy of the proxy voting policies and procedures by contacting DCIG in writing and requesting such information. Each client may also request, by contacting DCIG in writing, information concerning the manner in which proxy votes have been cast with respect to portfolio securities held by the relevant client during the prior annual period.

## **Item 18: Financial Information**

DCIG neither requires nor solicits prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore is not required to include a balance sheet with this brochure.

Neither DCIG nor its management has any financial condition that is likely to reasonably impair DCIG's ability to meet contractual commitments to clients.

DCIG has not been the subject of a bankruptcy petition in the last ten years.