

**Voleon Capital Management LP**

Form ADV - Part 2A

Investment Adviser Brochure

February 14, 2012

**Item 1 – Cover Page**

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This brochure provides information about the qualifications and business practices of Voleon Capital Management LP, a Delaware limited partnership and investment adviser registered with the U.S. Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this brochure, please contact us at (510) 704-9870, or by email at [compliance@voleon.com](mailto:compliance@voleon.com). The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

Registration of an investment adviser with the SEC or any state securities authority does not imply any level of skill or training.

Additional information about Voleon Capital Management LP also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2 – Material Changes**

This brochure, dated February 14, 2012, is our initial application for registration as an investment adviser with the SEC. Because this is our first brochure, we have no material changes to disclose. In the future, this Item will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

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## **Item 4 – Advisory Business**

### ***Structure; History and Ownership***

Voleon Capital Management LP is an investment advisory firm with its principal place of business located in Berkeley, California. Voleon Capital Management LP will be referred to in this brochure as “Voleon,” “Investment Adviser”, “we,” or the “firm.”

Voleon is organized as a Delaware limited partnership and has been in business since May 2008, and was founded by Michael Kharitonov, PhD, our Chief Executive Officer and a member of our firm’s general partner, Voleon Capital Management LLC and Jon McAuliffe, PhD. our Chief Investment Officer. Mr. Kharitonov is a limited partner in Voleon, and has an ownership interest in Voleon in excess of 25%.

### ***Types of Advisory Services***

Voleon serves as investment adviser and provides discretionary investment supervisory services to a master-feeder fund structure: Voleon Investors Fund LP, an Delaware limited partnership (the “Feeder Fund”), and its master fund, Voleon Master Fund, LTD, a Cayman Islands exempted company with limited liability (the “Master Fund” and together with the Feeder Fund, the “Funds”). Our services are provided to the Master Fund pursuant to the terms of an Investment Advisory and Management Agreement between the Master Fund, Voleon and Voleon Funds LP (“General Partner”), which acts as the general partner of the Feeder Fund and as the manager of the Master Fund. The Funds do not offer their interests to the public. Fund interests are offered only in private placements to qualified investors. The terms applicable to investors in the Funds are detailed in the Feeder Fund’s confidential offering documents, which are provided to investors.

Voleon also provides discretionary investment advisory services to one client on a managed account basis pursuant to an account management agreement.

The investment strategies we employ on behalf of the Funds and the managed account are described in greater detail below at Item 8 and in the Feeder Fund’s confidential offering documents. We do not tailor the strategy to the needs of individual Fund investors or to the managed account client although clients may impose limited restrictions on investing in certain securities or types of securities in the client’s advisory agreement.

We seek, on behalf of our clients, to profit from the identification and exploitation of anomalies in asset valuation in order to generate appreciation in the value of our clients’ accounts. Our focus is on publicly traded U.S. and foreign equity securities (i.e., common and preferred stocks, and American Depositary Receipts), and includes approximately 2,000 publicly traded U.S. equity securities and approximately 800 publicly traded Japanese equity securities that generally

have the highest levels of liquidity (i.e., average daily volume of shares traded) among all similar instruments.

On behalf of the client accounts, we may also invest in U.S. and foreign stock index exchange-traded funds (excluding leveraged exchange-traded funds) or stock index or single stock futures contracts, and may enter into hedging instruments primarily for risk management purposes. We may cause clients to invest in equity-linked derivatives and/or currency-linked derivatives in addition to or in lieu of the foregoing investment types. The client accounts may also be invested in short-term instruments for cash management purposes

The Feeder Fund invests substantially all of its assets in the Master Fund. Through this structure, we seek to execute the strategies discussed above, on behalf of the Feeder Fund, through the activities and investments of the Master Fund. The Feeder Fund may also make and hold investments directly, rather than through the Master Fund.

The assets of the managed account client are invested in an identical manner to the assets in the Master Fund, except for differences in leverage.

*See Item 8 of this brochure for a more detailed discussion of Voleon's investment strategies.*

### ***Assets Under Management***

As of December 31, 2011, Voleon manages approximately \$357,000,000 of client assets (calculated as Regulatory Assets Under Management), all of which is managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

We are entitled to an asset-based management fee from the Master Fund. However, because the Funds are set up in a “mini” master-feeder structure, we do not receive a fee from the Feeder Fund. We also receive an asset-based management fee from the managed account .

### ***Management Fee***

The Master Fund pays us a management fee on a monthly basis based on a percentage of the net asset value of the Master Fund as of the last day of the prior calendar month. The Master Fund's management fee is paid in advance on the first business day of each calendar month and will be prorated with respect to contributions to the Master Fund on a date other than the first day of the calendar month. Investors in the Feeder Fund bear their proportionate shares of the management fee paid by the Master Fund.

The management fee paid to us by the managed account is paid monthly in arrears based on a percentage of assets under management and is subject to proration for partial periods. Our management fee for the managed account is calculated by the client and paid to us by the client in accordance with the terms of the account management agreement. The management fee paid by the managed account is computed by a different formula than used for the Master Fund, and includes a minimum monthly amount.

Each of the Master Fund and the managed account has the ability to terminate the services of the firm pursuant to the terms of their respective management agreements. In the event that any such termination shall occur at other than a month-end, the firm would reimburse the Master Fund for the prorated portion of the management fee paid in advance with respect to the applicable month on the same terms as discussed above.

The details of how the fees are calculated for the Funds can be found in the confidential offering documents of the Feeder Fund, which are provided to investors. The details of how the fees are calculated for the managed account can be found in the management agreement entered into between the firm and the managed account client.

The fees described above are our typical rates. However, we may enter into agreements with one or more Feeder Fund investors providing for the waiver or modification of the management fee without notice to the other Feeder Fund investors. Under certain circumstances, we may agree to different fee terms from those described above for the managed account client.

The fees payable by the Master Fund are deducted from the assets of that Fund and are paid directly to us. Our management fee for the managed account is paid to us by the client in accordance with the terms of the account management agreement.

### ***Expenses***

Each Fund pays, or reimburses us for, all operating expenses and other costs of the Fund that we are not required to bear (subject to limited exceptions detailed in the confidential offering documents of the Feeder Fund) including, but not limited to transaction, custodial, and administration costs, investment expenses, and legal, audit, tax accounting and other ordinary and extraordinary expenses, amortized organization and initial offering expenses of the Feeder Fund and the Master Fund. The Feeder Fund and any feeder funds established in the future will bear, pro rata to their respective investments in the Master Fund, all costs and expenses incurred by the Master Fund including, but not limited to: brokerage commissions; clearing fees; interest expenses and withholding or transfer taxes incurred in connection with trading; operating expenses (e.g., legal, valuation, directors, accounting, auditing and record-keeping expenses);

custody, administration, valuation and registration fees; fees of the valuation agent; organizational expenses and extraordinary expenses.

The managed account will generally be responsible for all brokerage commissions, clearing fees, interest and withholding or transfer taxes incurred in connection with trading for the managed account, and our fees as described above.

As we consider appropriate, we may invest a portion of a client's assets in one or more money market funds, mutual funds or exchange-traded funds. When any such investments are made, clients will be paying, in addition to the compensation payable to us, their proportionate share of any management fees charged by the manager of such money market fund, mutual fund or exchange-traded fund.

*See Item 12 of this brochure for additional information regarding the Voleon's brokerage practices.*

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

### ***Performance-Based Fees***

Voleon is not entitled to any performance-based fees from the Master Fund; however, the General Partner is entitled to a performance-based fee from the Master Fund. Dr. Kharitonov and Dr. McAuliffe are limited partners of the General Partner, and as such, are indirectly entitled to such performance-based fees. Voleon does receive performance-based fees from the managed account client.

Such performance-based fees create certain inherent conflicts of interest with respect to Voleon's management of assets. Specifically, our affiliate's entitlement to performance-based fees may create an incentive for us to take risks in managing assets that we would not otherwise take in the absence of such arrangements. Additionally, since performance allocations reward our affiliate for performance in client accounts that are subject to such allocations, we may have an incentive to favor these accounts over those that have only fixed asset-based fees with respect to areas such as trading opportunities, trade allocation, and allocation of new investment opportunities. To mitigate these risks, Voleon's investment advisory services to clients are identical to the investment advisory services provided to the Master Fund so all allocations are made proportionately to client accounts and to the Master Fund. This pro rata allocation of assets to clients and the Master Fund mitigates these conflicts of interest.

As a registered investment adviser and a fiduciary, Voleon exercises due care to ensure that investment opportunities are allocated equitably among all clients. Towards this end, Voleon has implemented policies and procedures to address trade allocation decisions, order aggregation and

brokerage allocation decisions. These policies and procedures (discussed more fully in Item 12) seek to ensure fair and equitable treatment of all clients over time.

### ***Side-by-Side Management***

Voleon simultaneously manages the Master Fund and the managed account according to identical investment strategies (i.e., side-by-side management). The assets in the managed account are traded on a pari passu basis with the investments in the Master Fund. Any investment made by Voleon with respect to the Master Fund is simultaneously made on a pro rata basis to the managed account. This pari passu simultaneous management of these different client accounts mitigates conflicts of interest arising from different fee allocations to these client accounts.

Voleon has procedures designed and implemented in furtherance of its efforts to ensure pari passu investment treatment of all client accounts over time. By utilizing these procedures, Voleon believes that client accounts that are subject to side-by-side management alongside other products are receiving fair and equitable treatment over time.

Although Voleon intends to manage its client accounts on a pari passu basis, the leverage employed between different client accounts may differ which will impact the returns on the client accounts. The returns on the Master Fund may thus be higher or lower than those of the managed account because different leverage ratios are utilized even though the investments are allocated on a pari passu basis.

*See Item 12 of this brochure for additional information regarding Voleon's trade aggregation and allocation procedures.*

### **Item 7 – Types of Clients**

We provide investment advice to private investment funds and to one managed account. Investment advice is provided directly to the Master Fund, subject to the direction and control of the Board of Directors of the Master Fund, and not individually to the investors of the Feeder Fund.

### ***The Funds***

Investors in the Feeder Fund generally must be persons that are permitted U.S. Persons and who qualify as “accredited investors” as defined in Rule 501 under Regulation D under the Securities Act, qualify as “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act, and meet other eligibility criteria established by the General Partner. The Feeder Fund's investors may consist of one or more of the following: individuals; pension and profit sharing plans; financial institutions (including funds of funds); trusts; university endowments; charitable



organizations; and corporations or other business entities. Although the Feeder Fund is currently the only investor in the Master Fund, additional feeder funds may be established in the future. Voleon will not be engaged as an investment adviser to advise investors as to the appropriateness of investing in the Feeder Fund.

### ***Managed Account***

Voleon provides discretionary investment management services to an institutional investor on a managed account basis. The only minimum account maintenance requirement for the managed account is that sufficient funds are invested in an amount greater than or equal to the minimum amount of capital necessary to trade the managed account on a pari passu basis with the Master Fund.

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

We seek, on behalf of our clients, to profit from the identification and exploitation of anomalies in asset valuation in order to generate appreciation in the value of our clients' accounts. Our current focus is on publicly traded U.S. and Japanese equity securities (i.e., common and preferred stocks, and American Depositary Receipts), and includes approximately 2,000 publicly traded U.S. equity securities and approximately 800 publicly traded Japanese equity securities that generally have the highest levels of liquidity (i.e., average daily volume of shares traded) among all similar instruments.

Prior to September 2010, our investment focus has been almost exclusively on publicly traded U.S. equity securities (i.e., common and preferred stocks, and American Depositary Receipts) (collectively, "U.S. Equity Securities"). The U.S. Equity Securities we trade include approximately 2,000 publicly traded U.S. equity securities which generally have the highest levels of liquidity (i.e., average daily volume of shares traded) among all similar instruments. In addition to investing in U.S. Equity Securities, we may invest in stock index exchange-traded funds excluding leveraged exchange-traded funds ("ETFs"), stock index or single stock futures contracts ("Futures Contracts"), or may enter into hedging instruments primarily for risk management purposes. We may also invest in short-term instruments for cash management purposes.

In September 2010, we expanded our investment focus to include equity securities (i.e. common and preferred stocks) traded on Tokyo stock exchange and other exchanges in Japan (collectively, "Japanese Equity Securities") and Japanese stock index ETFs and Futures Contracts and hedging instruments, selected in a manner similar to that used in the selection of similar U.S. securities. The Japanese Equity Securities we trade include approximately 800 publicly traded Japanese equity securities which generally have the highest levels of liquidity (i.e., average daily volume of shares traded) among all similar instruments.

In September 2011, our firm commenced trading equity-linked derivatives (including but not limited to swaps) in addition to or in lieu of some or all of the foregoing instruments in the Japanese and, in October 2011, in the U.S. markets (such products are referred to as “Equity Derivatives”). We may trade Equity Derivatives in addition to or in lieu of some or all of the foregoing instruments in some or all U.S. and non-U.S. markets. We may trade currency-linked derivatives (including but not limited to swaps).

It is currently anticipated that in the future, we will expand our investment focus to include other non-U.S. Equity Securities, non-U.S. Equity Derivatives, and non-U.S. stock index ETFs and Futures Contracts and hedging instruments. Initial markets in which the Partnership intends to trade, in addition to U.S. and Japan, include the United Kingdom and various European and Asian markets, but we may also expand trading to other markets, including, but not limited to, emerging markets. In addition, we may engage in trading of foreign currencies, currency forwards, or other instruments for the hedging of its foreign exchange exposure.

The client accounts may also be invested in short-term instruments for cash management purposes.

### **Investment Strategies**

The firm’s trading strategies will be implemented with the goal of generating superior risk-adjusted returns, initially through trading strategies generally referred to as “statistical arbitrage.” The firm seeks to generate returns that are not correlated or minimally correlated with the returns of various national and/or global equity and bond market indices, and the returns of non-U.S. Dollar currencies relative to the U.S. Dollar.

A subset of quantitative arbitrage strategies, “statistical arbitrage” focuses on opportunities to profit from distortions in the relative valuations of securities across large and diverse portfolios. The firm uses a range of quantitative tools to seek to identify profit opportunities, to construct portfolios in a cost-efficient manner and to manage the overall risk of each client account’s portfolio consistent with the aim of producing superior risk-adjusted returns.

The firm may implement one or more “statistical arbitrage” strategies, including strategies based on the firm’s quantitative research. By carefully analyzing the behavior of asset prices and other available price-related and security-related information that the firm believes may have predictive value, and by testing the relationships between these data sets in what it believes to be a statistically sound framework, the firm seeks to make economically significant predictions about future asset price moves relative to other similar assets or tradable indices, net of transaction costs. The firm’s rigorously researched and implemented statistical arbitrage

strategies seek to exploit mis-pricings that exist due to inherent inefficiencies in the flow and accuracy of information and other factors in the marketplace.

Based on its quantitative research, the firm creates trading models that are implemented through the firm's computerized trading system, which is comprised of a combination of third-party and internally developed software components. The trading system tracks multiple data sources and, using the trading models, regularly updates risk models and forecasts of asset price moves to determine target asset portfolios and trading programs with the aim of optimizing returns relative to risk. The trading system incorporates order management and other trading related components.

While the principals and/or employees of the firm develop and approve the trading models and set key parameters, the trading system generally executes trades on a non-intervention basis. Except in unusual circumstances, no person reviews individual orders or programs of trades before they are carried out by the trading system. In most cases, the trading system executes trades directly via electronic links to the clients' brokers. However, some trades may be executed by a principal or employee of the firm. During trading hours, a principal or employee of the firm may monitor instrumentation of aggregate characteristics of the trading system, and from time to time that person or another principal or employee may intervene, typically to halt or limit trading or to liquidate holdings in one or more securities should unusual circumstances arise, such as a stock becoming the subject of merger speculation, or under adverse market conditions. There can be no assurance that such human intervention will be taken in all cases where it may be desirable, and any given human intervention action may not have the intended effect and could in fact result in loss or greater loss for client accounts. In the future the firm, based on its judgment of which techniques are likely to be most effective for carrying out current and any future trading strategies, may further automate the trading system and thus reduce the level of human oversight and/or intervention, or may increase the level of human oversight and/or intervention.

A client account's typical statistical arbitrage portfolio might consist of a highly diversified set of long positions in approximately 1,000 equity securities in the U.S., 400 in Japan, and a similarly diversified set of short positions, although the client accounts are not required to adhere to any restrictions with respect to diversification or number of holdings. The firm's trading strategies are proprietary and confidential. The foregoing description is therefore intentionally general in nature and is not a complete description of the strategies summarized or of all of the strategies that may be utilized by the firm.

There can be no assurance that the objectives associated with any strategies described above will be met. At any time, Voleon may add, remove, or modify any of the strategies it employs and this includes any of the strategies discussed above. No guarantee or representation is made by Voleon that the strategies will be successful, that the objectives will be achieved.

## ***Risks of Loss***

*Equity securities.* The client accounts will invest in U.S. equity securities of U.S. issuers and ADRs of non-U.S. issuers listed and traded on organized U.S. exchanges. The client accounts will also invest in equity securities traded in Japan and other markets outside of the U.S. The value of these securities generally varies with the performance of the issuer and movements in the equity markets. As a result, a client account may suffer losses if it invests in equity securities of issuers whose performance diverges from the firm's expectations or if equity markets overall or equities comprising a particular industry sector, capitalization level, or other grouping generally move in a single direction and the client account has not adequately hedged against such a general move.

ADRs carry additional risks. Investing in an ADR is not the same as investing directly in the underlying foreign security. The ADR may be less liquid than the underlying foreign security, increasing the potential cost, or increasing the time required, to close a position in an ADR. The price of the ADR also may not move in tandem with the underlying foreign security and indeed may diverge significantly at times. These risks may cause the client accounts to realize potentially significant losses that would not have been incurred if a client account had invested directly in the underlying foreign security.

*Small- and medium capitalization companies.* The client accounts initially expect to trade roughly the top two thousand most heavily traded U.S. equities (including common stocks, preferred stocks, and American Depositary Receipts), the top 800 most heavily traded Japanese equities and expect to trade similar equities in international markets. As a result, the client accounts will invest a significant percentage of their assets in small to medium capitalization companies: for example, companies in the United States that are too small to be included in the S&P 500 index. These companies have less ability to withstand adverse market conditions than larger issuers, and their securities are more thinly traded and volatile in price. While small to medium capitalization companies may have good growth potential, there is no guarantee they will experience such growth, and they typically involve higher risks because they may lack the management experience, financial resources, product diversification and personnel available to their larger competitors.

*Derivative instruments.* The client accounts make significant and extensive use of various derivative instruments, which may include warrants, options, futures, convertible securities, and interest-rate and equity swaps. Virtually all of the trading activities relating to client accounts are currently effected through over-the-counter derivative instruments. The use of derivatives involves a variety of material risks, including the high degree of leverage often embedded in such instruments.

The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to liquidate positions in order either to realize gains or limit losses.

Many derivatives are valued on the basis of dealers' equivalents. However, the price at which dealers value a particular derivative and the price which the same dealers would actually be willing to pay for such derivative may be materially different. Such differences can result in an overstatement of the Net Asset Value of a client account, and may have a materially adverse effect on the client account in situations in which the client account is required to liquidate positions in order to raise funds.

The client accounts may be obligated to indemnify various broker-dealers or derivative counterparties against certain liabilities such parties may incur in connection with derivative instruments used by the client accounts. Such indemnification obligations may survive long after the derivative instrument has been unwound or terminated. Should a client account or a party which a client account has agreed to indemnify be named as a defendant in a lawsuit or regulatory action stemming from a derivative instrument to which a client account is a party, the client account would bear the additional costs of defending and indemnifying against such action and would be at further risk if the client account or the indemnified party failed to prevail in the litigation.

*Derivative counterparties.* The primary markets in which the client accounts will effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight, unlike members of "exchange-based" markets. This exposes the client accounts to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the client accounts to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a client account has concentrated its transactions with a single or small group of counterparties. The client account is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with a single counterparty. Moreover, the client accounts have no internal credit function that evaluates the creditworthiness of its counterparties. The ability of the client accounts to transact business with any one or number of counterparties, the lack of any meaningful and independent valuation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by a client account.

*Options.* The accounts may engage in options trading, both for speculative and for hedging purposes. Options trading involves certain risks which trading in the underlying securities, stock indices and/or stock index futures listed on a national securities exchange or traded in an over-the-counter market alone does not. For example, interest rates and market volatility directly

impact option values, and options have limited life spans and so may expire worthless despite the underlying position becoming profitable soon thereafter. The effectiveness of engaging in stock index options as a hedging technique will depend on the extent to which price movements in assets that are hedged correlate with price movements of the stock index selected. Successful use of options on stock indices may depend on the ability of the firm to predict correctly movements in the direction of the stock market generally or of a particular industry or market segment. This ability requires skills and techniques different from those used in predicting changes in the price of individual stocks.

Should a client account write (sell) options, it could sustain major marked-to-market losses – even if the options sold are never “in-the-money” – as a result of increases in market volatility and/or market movements towards the strike prices of such options. Because volatility is directly reflected in the market value of options, the extreme volatility of market prices increases both the costs and the risks of options trading.

### ***Risks of investment strategies and methods of analysis***

*Master-feeder structure.* A “master-feeder” fund structure, in particular the existence of multiple investment vehicles investing in the same portfolio, presents certain unique risks to investors. Although the Feeder Fund is currently the only investor in the Master Fund, additional feeder funds may be established in the future. Smaller investment vehicles investing in the Master Fund may be materially affected by the actions of larger investment vehicles investing in the Master Fund. For example, if a larger investment vehicle withdraws from the Master Fund, the remaining funds may experience higher *pro rata* operating expenses, thereby producing lower returns. Substantial withdrawals of capital by investors in the Master Fund, including the Feeder Fund and other “feeder” funds, if any are established in the future, over a short time period could necessitate the liquidation of securities positions at a time and in a manner which does not provide the most economic advantage to the Master Fund and which therefore could adversely affect the value of the Master Fund’s assets. Moreover, the layering of entities can impair the access of investors to the underlying assets of the Master Fund.

The assets of the Feeder Fund will consist almost exclusively of shares of the Master Fund. Accordingly, the financial results of the Feeder Fund will be almost entirely dependent on the performance of the Master Fund.

*Managed Account withdrawal.* The managed account holds positions in the same securities as the Master Fund. Substantial withdrawals of capital by the owner of the managed account over a short time period could necessitate the liquidation of securities positions at a time and in a manner which does not provide the most economic advantage to the Master Fund and which therefore could adversely affect the value of the Master Fund’s assets.

*Use of substantial leverage.* The trading strategies pursued by the firm will require the client accounts to employ substantial leverage in the form of direct borrowing of funds and/or securities from third party lenders for operating and investment purposes using assets of the client accounts as collateral against such borrowings. Additionally, the client accounts trade derivatives on exchanges or enter into derivative transactions with third party counterparties to provide leverage for its investments, including a range of futures, options, swaps and other derivative contracts.

The client accounts may enter into one or more securities loan agreements with institutional counterparties which would permit it to invest any cash collateral to be provided by the counterparty borrowers of its securities or certain other proceeds. Additionally, the client accounts may borrow for cash management purposes, including but not limited to: anticipating additional subscriptions, funding withdrawals and addressing the timing issues in connection with the acquisition and liquidation of investments.

The assets of the client accounts will typically be pledged or charged to secure each such borrowing.

The client accounts may borrow amounts and/or may enter into “Leverage Transactions” constituting financing obligations of the client accounts including, without limitation, forward commitments, swap agreements, options, swaptions, hedge agreements and other types of derivative instruments in order to leverage the client accounts’ investments. The firm may enter into Leverage Transactions on behalf of the client accounts. The firm, on behalf of the client accounts, may pledge equity securities, other securities, or cash to collateralize any such Leverage Transactions.

Any Leverage Transactions are expected to contain provisions typical of lending arrangements including, without limitation, financial and other covenants, events of default, termination events, and similar provisions which may affect the availability of financing and which, in certain circumstances, could result in the lender effecting remedies against the assets of the client accounts.

*Model risk.* The firm’s strategies are highly dependent on quantitatively-based pricing theories and valuation models that generally have not been independently tested or otherwise reviewed (“Models”), which the firm uses to evaluate trading opportunities. Models employ assumptions that abstract a limited number of variables from complex financial markets or instruments which they attempt to replicate. Any one or all of these assumptions, whether or not supported by past experience, could prove over time to be incorrect. For example, Models may postulate or their efficacy may depend on assumptions regarding the existence of relationships that appear to hold true or in fact held true in the past but that may not exist or hold true in the future. Inputs into

various Models may be composed of or derived from facts or data, the accuracy of which have not been independently verified by the firm or any third party. In particular, if material factors are not incorporated into Models, or are incorporated inaccurately, substantial losses could result, including on the basis of theoretical Models (that later prove incorrect) that identify positions that appear to have minimal risk. The outputs of Models may differ substantially from the reality of the markets, resulting in major losses. Additionally, there is no assurance that the firm has appropriately incorporated the Models into its strategies.

*Computer hardware, software, networks.* Many components of the firm's critical computer hardware, networks, hosting facilities, and software may have flaws, may not be redundant or reliable, may be leased rather than owned, or may be provided in whole or in part by another party. The firm also relies on its own internal computer networks, as well as third-party computer networks including the internet, for critical aspects of its operations. These third-party computer networks are subject to various risks of disruption or performance degradation including but not limited to accidental cuts to data cables, equipment failure as well as systemic problems such as distributed denial of service attacks. Should any of these computer hardware and software or computer networks or network components fail or be inaccessible, there is no certainty that the firm will be able to recover promptly, and the client accounts' trading performance may suffer materially as a result.

*Automated / non-intervention trading systems.* While the principals and/or employees of the firm develop and approve the trading models and set key parameters, the trading system generally executes trades on a non-intervention basis. Except in unusual circumstances, no person will review individual orders or programs of trades before they are carried out by the trading system. In most cases, the trading system executes trades directly via electronic links to brokers. However, some trades may be executed by a principal or employee of the firm. During trading hours, a principal or employee of the firm may monitor instrumentation of aggregate characteristics of the trading system, and from time to time that person or another principal or employee may intervene, typically to halt or limit trading or to liquidate holdings in one or more securities should unusual circumstances arise, such as a stock becoming the subject of merger speculation, or under adverse market conditions. There can be no assurance that such human intervention will be taken in all cases where it may be desirable, or that any given human intervention action will have the intended effect. In fact, human intervention could result in substantial loss or greater loss for the client accounts than would otherwise have been the case.

In the future the firm, based on its judgment of which techniques are likely to be most effective for carrying out current and any future trading strategies, may further automate the trading system and thus reduce the level of human oversight and/or intervention, or may increase the level of human oversight and/or intervention.



*Trading errors.* Due to coding or programming errors in software, hardware, and modes of transmission, as well as erroneous or inaccurate pricing or other information provided by third parties or downtime or delays in the feeds of pricing or other information (“Technical Errors”), trades may be placed or executed in error. Trades may also be incorrectly executed due to keystroke, typographic or inadvertent drafting errors, or other human error at the time of execution of a trade (“Execution Errors”). Many exchanges have adopted “obvious error” rules that prevent the entry and execution of trades more than a specified amount away from the current best bid and offer on the exchange. However, such rules may not be in place on the exchanges or markets where the firm trades on behalf of the client accounts, and may not be enforced even if in effect. Moreover, such rules would likely not prevent the entry and execution of a trade entered close to the market price but at an erroneous size. In addition, Technical Errors, Execution Errors and other trading errors may lead to the failure by the firm to enter or to execute trades that would have generated profits or avoided losses for the client accounts. Technical Errors, Execution Errors and other trading errors may also lead to the execution of undesirable trades that would not otherwise have been executed, potentially generating losses for the Partnership that would otherwise not have been incurred.

Any trading errors due to Technical Errors, Execution Errors, or otherwise that are not due to fraud, gross negligence, reckless or intentional misconduct, bad faith or criminal wrongdoing will be for the account of the client accounts, which will accept the profits or suffer the losses from such trading errors. The firm believes that trading errors are a known cost of doing business. The firm has obvious incentives to avoid trading errors for reputational reasons as well as the fact that the firm will indirectly suffer the consequences of trading errors through the Performance Allocation payable to the General Partner, which is under common control with the firm. Nevertheless, given the large volume of transactions executed by the firm on behalf of the client accounts, investors should assume that trading errors will occur and that the client accounts will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the firm’s personnel.

*Relative value strategy.* The firm’s trading strategies can be characterized as “relative value” trading strategies. In its “relative value” trading activities, the firm attempts to exploit relative mis-pricings among interrelated instruments. Mis-pricings, even if correctly identified, may not be corrected by the market within the time frame over which a client account can maintain its positions.

Even “pure” relative value arbitrage can result in significant losses if the trading positions comprising the arbitrage are not able to be sustained (if, for example, a client account were required by its prime broker to reduce its use of leverage; or if limited leverage were available for illiquid securities) until the arbitrage can be realized. The client accounts’ activities involve considerably greater risks than “pure” relative value arbitrage.

A client account, in implementing its “relative value” strategies, has reduced exposure to the risk of overall market price movements, but is fully subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence of the firm’s valuation models. These risks are different in nature, but perhaps no less severe in magnitude, than directional market risks.

*No true arbitrage.* The firm’s strategies do not primarily involve true arbitrage — in which profits will necessarily be realized if a position can be maintained until maturity. On the contrary, the firm’s strategies generally involve taking what are evaluated to be only partially offsetting positions in instruments whose true price and correlations to other instruments are uncertain and whose liquidity may be limited. What the firm analyzes as a mis-pricing may be evaluated quite differently by other market participants who may, in fact, use pricing models materially different from those used by the firm. No representation can be made that the firm will correctly identify any “true arbitrage” in any market. Even if a true arbitrage is identified, there can be no assurance that the Partnership will be able to maintain an arbitrage position until the inherent profit is recognized. In addition, all arbitrage strategies are subject to the risks that increasing market liquidity, technological innovation and new theoretical constructs or refinements will reduce or eliminate the arbitrage opportunity and/or the profitability of its exploitation.

*High turnover and short holding periods.* The firm trades the client accounts’ portfolios with high frequency. The firm’s trading systems and models are designed to hold securities for varying lengths of time with the average holding period expected to be less than one month. High turnover increases the brokerage commissions, bid-ask spreads, fees and other transaction costs, which directly decrease the client accounts’ trading profits.

*Counterparty and custody.* The client accounts may be a party to prime brokerage securities lending agreements and derivative contracts with third party Wall Street broker-dealers under which it lends specified types of securities to the relevant third party, which counterparty in turn is obligated to return the lent securities to the client accounts on an agreed upon future date. The default of any such third party on any such obligation could have a material adverse effect on the client accounts in that any securities borrowed may not be timely returned. In such event a client account may be subject to the risk that any lent securities will increase in value before it is able to replace them using any cash collateral (or the proceeds of any securities collateral) it holds, or that any securities it holds subject to repurchase by the third party will decline in value before the client account is able to resell them. In addition, if, in the event of such a third party default, the client account is delayed or prevented from exercising its rights to dispose of any securities collateral, it will be subject to the additional risk of a possible decline in the value of such collateral during the period in which it seeks to assert these rights. Moreover, such third party

will have a lien on all assets of the client accounts, and will be allowed to liquidate such assets in certain circumstances, which liquidation could be at losses. While the firm will select counterparties that it believes are creditworthy, the firm generally does not perform extensive credit analyses on its counterparties. Furthermore, any misconduct on behalf of the counterparties, including, without limitation, fraudulent activities, will increase the client accounts' possible risk exposure.

*Volatility.* The prices of the instruments traded by the firm have been highly volatile during certain periods in the past, and such periods may recur. The price movements of these instruments are caused by many unpredictable factors, including, but not limited to, market sentiment, inflation rates, interest rate movements and general economic and political conditions.

Volatility creates the specific risk, in the case of the firm, that historical or theoretical pricing relationships will be disrupted, causing what would otherwise be a comparatively low-risk "relative value" position to incur major losses. Past returns of the accounts will not necessarily be indicative of its future performance.

*Short sales.* The client accounts routinely sell securities short in implementing the trading and risk management strategies. Since the borrowed securities sold short must later be replaced by market purchases, any appreciation in the market price of these securities will result in a loss. 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 client accounts. In addition, purchasing securities to close out the short position can itself cause their market price to rise further, increasing losses. Furthermore, the client accounts may be prematurely forced to close out a short position if a counterparty from which the client accounts borrowed such security demands its return, as counterparties may do in their discretion, resulting in a loss on what might otherwise have been a profitable position.

*Swap agreement risks.* The client accounts may enter into equity, interest rate, index, currency rate, credit default swaps and other similar swap agreements. These transactions are entered into as a hedge, as one part of an arbitrage or in an attempt to obtain a particular return when it is considered desirable to do so. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to several years. In a standard swap transaction, two parties agree to exchange different cash flows, such as interest rates (fixed versus fluctuating rates), currencies or returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments, which may be adjusted for an interest factor. The cash flows to be exchanged or "swapped" between the parties are generally calculated with respect to a "notional amount" (e.g., the interest rate or return on, or increase in, the value of a particular dollar amount invested in a particular foreign currency or in a "basket"

of securities representing a particular index). Forms of swap agreements also include equity swaps, in which one party agrees to pay to (or receive from) the other party an amount equal to the percentage gain (or loss) realized by a specific equity security or group of equity securities in proportion to an agreed-upon notional amount; interest rate “caps,” under which, in return for a premium, one party agrees to make payments to the other to the extent interest rates exceed a specified rate or “cap”; interest rate “floors,” under which, in return for a premium, one party agrees to make payments to the other to the extent interest rates fall below a specified level or “floor”; and interest rate “collars,” under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels.

Many swap agreements entered into by the client accounts would require the calculation of the obligations of the parties to the agreements on a “net basis.” Consequently, the current obligations (or rights) of the client accounts under a swap agreement generally would be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the “net amount”). The risk of loss to a client account counterparty with respect to such swaps should be limited to the net amount of interest or other payments that the account is contractually obligated to make. If the other party to a swap defaults, the risk of loss of the account consists of the net amount of payments that the client account contractually is entitled to receive.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in any or all of the strategies. Prospective clients should read this entire Form ADV and all accompanying materials provided by Voleon and consult with their own advisors before deciding whether to invest in the strategies. In addition, as the strategies develop and change over time, an investment in the strategies may be subject to additional and different risk factors. Voleon will promptly amend this brochure if and when any information regarding its investment risks and strategies becomes materially inaccurate.

#### **Item 9 – Disciplinary Information**

Not applicable.

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

##### ***Material Financial Industry Affiliations of the Firm***

Our affiliate, Voleon Funds, LP, serves as the General Partner of the Feeder Fund and the manager of the Master Fund. Neither Voleon nor the General Partner nor any of their affiliates are registered as broker/dealers, commodity pool operators or commodity trading advisors at the current time.

### ***Conflicts of Interest***

Each of the accounts employs an identical investment strategy, which is described in Item 8 of this brochure.

In addition to the Funds and our current managed account client, we may in the future participate in or sponsor other investment vehicles, and possibly have additional advisory accounts or clients. We may also determine to engage in other businesses. The existence of such present and future multiple investment vehicles and accounts, or other businesses, may create the material conflicts of interest described below.

*Management of other accounts.* In addition to trading for the account of the clients, the General Partner, the firm and its principals may engage in investment and trading activities of other investment and trading accounts with objectives virtually identical to those of its current client accounts, including other limited liability entities or other collective investment vehicles which may now or in the future be managed or sponsored by the General Partner and the firm and in which the General Partner, the firm, and/or its principals may have an equity interest.

Situations may arise in which the principals of the General Partner and the firm have an incentive to favor one or more other funds or accounts over one another. Furthermore, the other funds or accounts managed by the firm may implement investment strategies that are parallel to (and thus compete with) another account, or that are different from an account.

The firm and its principals, directors, officers, partners, managers, shareholders, employees and their affiliates, as applicable, trade or may trade for their own accounts, and certain of such persons have sponsored or may in the future sponsor or establish other public and private investment funds (including the Master Fund and the Feeder Fund). The firm and its principals and affiliates may trade for other accounts, including for their own accounts, and they will remain free to trade for such other accounts and to utilize trading strategies and formulae in trading for such accounts that are the same or different from the ones the firm will utilize in making trading decisions for the client accounts. In addition, and if and when applicable, in their respective proprietary trading, the firm and its principals and affiliates may take positions that are the same as, different than, or opposite to those of the client accounts. The records of any such trading will not be available for inspection by investors in the Funds except to the extent required by law.

The firm currently plans to continue trading for the managed account on a *pari passu* basis with trades executed on behalf of the Master Fund, although the firm may, in the future, utilize investment strategies for some or all managed accounts that may be different from its investment strategies employed with respect to the Funds' investments. The firm executes trades or transfers between the Funds and the managed accounts utilizing the investment strategies that are the same as investment strategies employed on behalf of the Funds for the purpose of enabling the firm to

carry out trading of those strategies in a manner virtually identical for the Funds and the managed accounts. The firm may from time to time increase or decrease the number of managed accounts in its sole discretion.

*Other activities.* The firm and each of the other service providers to the client accounts and their respective principals will not be devoting their time exclusively to the management of the client accounts. In addition, each of such persons and their respective principals will perform similar or different services for others and may sponsor or establish other investment funds or manage managed accounts during the same period that they provide services to the client accounts, including investment funds and managed accounts that trade the same or substantially similar strategies, markets and/or instruments. Therefore, each of these persons will have conflicts of interest in allocating management time, services and functions among the various entities and accounts for which they provide services. Additionally, these entities and accounts will compete for positions and limited investment opportunities. Although the firm will attempt to allocate investment opportunities and positions on a fair basis, certain accounts and/or investment funds may be excluded from investments they would have been permitted access to were there no competing accounts or funds.

*Possible conflicts regarding brokerage allocations.* The firm negotiates agreements with its Brokers on a “best execution” basis and does not formally engage in any “soft dollar” arrangements or commitments. Incidental to agreements with its Brokers, the firm may receive additional other benefits from its Brokers or other third parties, but the firm does not take such benefits into account in choosing and negotiating with its Brokers or other third parties. In addition, even though such benefits may fall outside the safe harbor for fiduciaries’ use of “soft dollar” payments established by Section 28(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the firm believes that its arrangements with its Brokers are reasonable and consistent with the clients’ objectives.

*Other conflicts.* Affiliates of clients of the General Partner or the firm (including investors in the client accounts) may currently provide the client accounts with administrative, brokerage, or other services or offer to provide such services in the future. To the extent such clients represent a material portion of the firm’s assets under management, the firm will have a conflict of interest when determining whether to utilize those service providers for the client accounts.

The General Partner may permit certain strategic investors to invest in the Feeder Fund on terms that are better than the terms provided to other investors. Specifically, the General Partner may enter into agreements with certain seed investors which provide that such investors shall be subject to, among other things, a lower management fee or performance allocation.

The General Partner may enter into side agreements with other strategic investors, the terms of which may differ from those mentioned above, and which are to be determined by the General Partner, in its sole discretion.

The General Partner may permit certain investors in the Feeder Fund to have more frequent or more detailed access to information regarding the Fund's investments, valuations, the positions taken by the Fund, or other investment information. Investors with such access may use such information to make withdrawal and/or additional investment decisions. The General Partner, the firm and the Fund are under no obligation to provide other investors with such access.

*Resolution of conflicts.* Any conflicts of interest that arise between the accounts or particular investors in the Funds on the one hand, and the other accounts, General Partner or the firm, on the other hand, will be discussed and resolved on a case-by-case basis by the business, legal and compliance officers of General Partner and the firm, as applicable. Any such discussions will take into consideration the interests of the relevant parties and the circumstances giving rise to the conflicts. Investors in the Funds should be aware that conflicts will not necessarily be resolved in favor of the interests of the Funds or any affected investors.

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

### ***Code of Ethics***

Voleon has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, a prohibition of rumor mongering, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Voleon must acknowledge the terms of the Code of Ethics annually, or as amended. A copy of Voleon's Code of Ethics will be provided to any client or prospective client upon request, which request may be submitted to Laarni P. DeGuzman, Chief Compliance Officer, at (510) 704-9870, or by email at [ldeguzman@voleon.com](mailto:ldeguzman@voleon.com).

### ***Financial Interest in Client Transactions***

The Feeder Fund will invest substantially all of its assets in the Master Fund.

We may, from time to time, take a position in a security in which our firm or one of our related persons, directly or indirectly, has an interest. For instance, it may be expected that the managed account assets will be invested in securities of issuers in which one or more other Funds hold positions. In addition, Fund assets may be invested in securities of issuers in which one or more

other Funds or the managed account hold positions. Given the likelihood of such occurrence, clients will not be provided with notification of such occurrences.

The firm from time to time executes trades or transfers between the Funds and the managed accounts utilizing the investment strategies that are the same as investment strategies employed on behalf of the Funds for the purpose of enabling the firm to carry out trading of those strategies in a manner virtually identical for the Funds and the managed accounts.

These practices may give rise to conflicts of interest, and such conflicts, and our procedures for addressing them, are described in detail in Item 10 of this brochure.

### ***Participation in Client Transactions and Personal Trading***

Voleon's employees and persons associated with Voleon are required to follow Voleon's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Voleon and its affiliates may trade for their own accounts in securities which are traded for Voleon's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Voleon will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would not interfere materially with the best interest of Voleon's clients. In addition, the Code requires pre-clearance of some transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Voleon and its clients.

When Voleon determines that it would be appropriate for one or more of the Funds or the managed accounts to participate in an investment opportunity, Voleon will seek to execute orders for all of the participating accounts on an equitable basis. Specifically, if Voleon has determined to invest at the same time for more than one of the accounts, Voleon may place combined orders for all such accounts simultaneously (aggregate or bunch trade) and if any order is not filled at the same price, it may average the prices paid. Similarly, if an order on behalf of more than one account cannot be fully executed under prevailing market conditions, Voleon may allocate the securities traded among the different accounts on the basis in which it considers equitable. In these circumstances, each account would generally pay, in connection with the acquisition of securities by more than one account, the average price per unit acquired, which may be higher than if it had acted alone, and it may otherwise not be able to execute an investment decision as effectively as it could have if it had acted alone.



Subject to applicable laws, Voleon may buy, sell or hold securities for a client or proprietary account while entering into a different or opposite investment decision for other client or proprietary accounts. Consequently, Voleon may purchase or sell the same securities for more than one advisory client or proprietary account on the same day (including at the same time) in the same direction, the opposite direction or a combination of the two directions. There may be potential disadvantages when more than one client account simultaneously seeks to buy or sell commonly held securities and other investment positions. Also, clients may hold securities whose issuers are subject to a merger or are issuing convertible securities and subsequently invested in by the Funds managed by Voleon. In general, clients may take an opposite investment position (i.e., a long position versus a short position) in the same security held by other clients.

Voleon will allocate investment opportunities and trades fairly. “Fair” treatment does not mean identical treatment of all clients. Rather, it means that Voleon does not discriminate on an impermissible basis against one client or group of clients. When Voleon transacts in securities for more than one account, the investment opportunities and trades must be allocated in a manner consistent with our fiduciary duties. Please refer to Item 12 for a description of Voleon’s trade aggregation procedures.

#### ***Conflict of Interest Created by Contemporaneous Trading***

The client accounts are currently managed and traded on a *pari passu* basis. In order to further minimize any conflicts, Voleon has adopted the trade aggregation and allocation policies and procedures discussed in Items 6 and 10, above, and Item 12, below.

#### ***Insider Trading/Material Non-Public Information.***

All Voleon employees are subject to the insider trading policies included in Voleon’s Code of Ethics. These policies broadly prohibit the use of material, non-public information, and include policies and procedures prohibiting the use of material non-public information that are designed to prevent insider trading by an officer or employee of the firm. Due to the nature of Voleon’s quantitative investment strategy, trading on material, non-public information would require significant changes to Voleon’s investment strategy and would be quite difficult for an employee or principal of Voleon to accomplish given the extensive number of short-term trades which are executed each day. Nevertheless, if it deems it necessary at any time, Voleon may maintain a “restricted list” that identifies any securities that cannot be purchased for employee, client, or firm-owned accounts because material, non-public information may have been received by an employee of the firm.

## **Item 12 – Brokerage Practices**

### ***Selecting Brokerage Firms***

Although the Feeder Fund will invest substantially all of its available capital in the Master Fund, the Feeder Fund may continue to engage broker-dealers. References herein to the Funds' brokerage arrangements include references to the Master Fund's brokerage arrangements, to the extent the Feeder Fund's investments are made through the Master Fund.

The firm will have full investment discretion with respect to the initiation of all portfolio securities transactions for the accounts as well as full authority to select broker-dealers to execute such transactions. Currently, the firm uses a single prime broker, but intends to utilize a number of broker-dealers to effect transactions for the accounts in the future. The broker-dealers are selected by the firm on the basis of obtaining the best overall terms available, which the firm evaluates based on a variety of factors, including the ability to achieve prompt and reliable executions at favorable prices, the operational efficiency with which transactions are effected, the competitiveness of the commission rates, the securities and margin lending arrangements available from the broker-dealers, and the financial strength, integrity and stability of the broker-dealers.

This does not, however, constitute a representation as to performance by or on behalf of the broker-dealers.

The broker-dealers do not provide investment advisory or discretionary management services to the client accounts.

### ***Soft Dollar Arrangements***

Voleon has sole discretion over the purchase and sale of investments (including the size of such transactions) and the broker or dealer, if any, to be used to effect transactions. Voleon will seek the best price and execution available except to the extent it may be permitted to pay higher brokerage commissions in exchange for brokerage and research services. "Best execution" means obtaining for a client account the lowest total cost (in purchasing a security) or highest total proceeds (in selling a security), subject to the circumstances of the transaction and the quality and reliability of the executing broker or dealer. In selecting brokers or dealers, Voleon will consider various factors, including: the reputation, experience and financial stability of the broker-dealer; the ability to maintain Voleon's anonymity; the ability to provide competitive pricing; the size and timing of the transaction; the ability and willingness to commit capital and provide prompt and accurate execution and settlement; whether the broker-dealer makes a market in a security and/or finds sources of liquidity; the nature of the market for the security and the difficulty of execution; the broker-dealer's trading expertise, including its ability to minimize total trading costs and to trade without unduly impacting the market; the belief that the

broker-dealer charges a fair and reasonable fee for each trade, and that the client accounts have been treated fairly and honestly in prior trades; and the quality of execution, quality of the broker-dealer relationship, quality of service rendered by the broker-dealer in prior transactions, and quality of any proprietary research and investment ideas.

Voleon has no formal soft dollar arrangements with specific brokers or dealers to receive research or other services beyond transaction execution in exchange for brokerage commissions from client transactions. However, brokers or dealers may be selected who provide research reports and services to Voleon, including: proprietary broker-dealer company research and analyses; oral and written reports, statistics and advice about the economy, and reports on underwriting activity and other capital markets statistics, both of which may be attractive for one or more client accounts or to Voleon; and opportunities to confer with company management. In accordance with Section 28(e) of the Securities Exchange Act of 1934, broker-dealers providing such services may be paid commissions on transactions for client accounts in excess of those that other broker-dealers not providing such services might charge so long as Voleon determines in good faith the amount of commissions is reasonable in relation to the value of the brokerage and research services provided, taking into account all of the client accounts over which Voleon exercises investment discretion.

#### ***Client Referrals and Directed Brokerage***

Voleon receives client referrals from any broker-dealers but does not compensate them in any way, although it may do so in the future. Voleon does not require any client to direct Voleon to execute transactions through a specified broker-dealer.

#### ***Order Aggregation***

Voleon's investment strategy is mainly effected through the use of synthetic and derivative instruments. However, if Voleon were to engage in cash trading of equity securities, Voleon may aggregate the securities to be purchased or sold in order to obtain superior execution and/or lower brokerage expenses. In particular, execution prices for identical securities purchased or sold on behalf of multiple accounts in any one business day may be averaged. In such events, allocation of the securities purchased or sold, as well as expenses incurred in the transaction, will be made among the accounts by applying such considerations as the firm and its affiliates deem appropriate, including relative account size of such entities and clients, amount of available capital, size of existing positions in the same or similar securities, impact of leverage, tax considerations and other factors. Although such allocations may typically be pro rata as to a particular account, they will not necessarily be so, where allocation considerations, such as availability of capital, positions in similar securities or differing objectives dictate a different result. No account will be entitled to investment priority over other accounts and may not necessarily participate in every investment opportunity. In general, when managing account

capital directly, the firm will endeavor to make all investment allocations as to in a manner that it considers to be the most equitable to all managed entities and clients.

Any broker-dealers utilized by Voleon will have a senior lien on all assets held by such broker-dealers to secure any margin loans or other transactions covered by the related brokerage agreement, and will be allowed to liquidate such assets in certain circumstances, which liquidation could be at losses. If the prime broker were to enter insolvency or bankruptcy proceedings, the assets of the account may not be recouped. General Partner and the firm will monitor the accounts' brokers periodically to assess the accounts' credit exposure to the brokers, and may terminate, replace or add brokers as deemed necessary to protect the assets of the accounts.

### **Item 13 – Review of Accounts**

Subject to the information discussed above, particularly in Item 8 with respect to the firm's trading strategies, Voleon reviews client accounts on a continuing basis to determine accomplishment of investment objectives, the cash balances available and/or margin debit balances outstanding, diversification of the portfolio and security positions. Such reviews are performed by the firm's portfolio management team responsible for all client accounts, and reviews also may be triggered by economic and political events, specific company information, and/or market conditions.

### ***Reports***

#### ***The Funds***

At the end of each month, each investor in the Feeder Fund is provided with an unaudited report of the progress of the Funds and the net asset value of the investor's interests. As soon as practicable after the end of each fiscal year, the Feeder Fund sends to each investor an annual report of the Funds containing audited financial information prepared in accordance with GAAP. At or about such time as the audit is completed, the Feeder Fund prepares and sends to each investor a report setting forth such detail as is necessary for the investor to prepare its tax returns, as necessary.

#### ***Managed Account***

Client statements are available daily online to the client account directly from Voleon's prime broker. These reports list the account positions, activity in the account over the covered period, and other related information. The client is also sent confirmations following each brokerage account transaction unless receipts of confirmations has been waived by the client. In addition, the client receives a monthly summary report directly from the firm.

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

Not applicable.

## **Item 15 – Custody**

### ***The Funds***

The assets of each Fund are held at third party brokerage firm or firms meeting the definition of “qualified custodians” under SEC Rule 206(4)-2. Account statements are provided directly to General Partner with respect to the Feeder Fund and the manager with respect to the Master Fund. Individual investors in the Feeder Fund receive the reports from Voleon described in Item 13 of this brochure. Voleon does not maintain physical custody of the assets in the Fund. The Fund’s trades are effected synthetically through the use of over-the-counter derivatives. There are no physical assets subject to custody arrangements.

### ***Managed Account***

Voleon does not maintain physical custody of the assets in the managed account. The managed account client’s trades are effected synthetically through the use of over-the-counter derivatives. There are no physical assets subject to custody arrangements.

## **Item 16 – Investment Discretion**

Voleon usually receives discretionary authority from a client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold.

Unless otherwise instructed or directed by a client, Voleon has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines), and (ii) the amount of securities to be purchased or sold for the client account. Voleon currently manages all client accounts on a pari passu basis and intends to continue to do so.

### ***The Funds***

Voleon has full discretionary authority and responsibility with respect to the investment management of the Funds pursuant to an investment management agreement, which is subject to the terms and conditions set forth in the Feeder Fund’s confidential offering documents, and, as such, is generally authorized to place orders for the execution of securities transactions without prior consultation with the client.

### ***Managed Account***

Voleon has full discretionary authority and responsibility with respect to the investment management of the managed account and, as such, is generally authorized to place orders for the execution of securities transactions without prior consultation with the client.

### **Item 17 – Voting *Client* Securities**

#### ***The Funds***

Due to the nature of Voleon's quantitative investment strategy, Voleon does not vote proxies on behalf of its clients. Additionally, since all of Voleon's current trading strategy is effected through the use of over-the-counter derivatives, Voleon does not have beneficial ownership of the underlying securities.

Each investor in the Feeder Fund may request information on Voleon's proxies and procedures by contacting Laarni P. DeGuzman, Chief Compliance Officer, at (510) 704-9870, or by email at [ldeguzman@voleon.com](mailto:ldeguzman@voleon.com).

### ***Managed Account***

Voleon does not vote proxies for securities held by the managed account. Instead, the managed account is traded synthetically through the use of over-the-counter derivatives, and does not have beneficial ownership of the underlying securities.

### **Item 18 – Financial Information**

No financial condition presently exists that is reasonably likely to impair Voleon's contractual commitments to its clients.