

**Item 1. Cover Page**

**Brochure of  
Parallax Volatility Advisers, L.P.**

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This brochure provides information about the qualifications and business practices of Parallax Volatility Advisers, L.P. (“PVA”). If you have any questions about the contents of this brochure, please contact us at 415-445-6646 or [echen@parallaxfund.com](mailto:echen@parallaxfund.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

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

**Item 2. Material Changes**

Parallax has updated its net assets under management in Item 4 to approximately \$3,284,800,000 as of December 31, 2019.

During 2019, PVA added new currency Share tranches to the Parallax Core offshore feeder Fund. In early 2020, PVA determined to wind down and dissolve the Cygnus Alpha Funds, as those terms are defined in Item 4. Information about these changes are in Item 4 and Item 8.

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#### **Item 4. Advisory Business**

PVA is a California limited partnership that has been in business since 1996. Its managing principals and principal owners consist of S. Daniel Hutchison, William Bartlett and Jill Armstrong. Mr. Hutchison, as the principal portfolio manager, and Mr. Bartlett, as Chief Executive Officer, are primarily responsible for day-to-day trading activities, and Ms. Armstrong, as Chief Operating Officer, is primarily responsible for compliance and operations. PVA's general partner is Parallax Volatility Advisers GP, LLC, and the managing members and owners of that general partner are Mr. Hutchison, Mr. Bartlett, and Ms. Armstrong.

As of December 31, 2019, PVA had total net discretionary assets under management of approximately \$3,284,800,000 and regulatory assets under management of approximately \$11,204,997,000. PVA only manages assets on a discretionary basis.

PVA currently manages two separate fund families as described below. Each fund family is a master-feeder structure with a Cayman Islands exempted limited partnership master fund (together, the "*Master Funds*"), a Cayman Islands corporation offshore feeder and a US limited partnership onshore feeder. In each master-feeder arrangement, the two feeder funds invest substantially all of their assets in the respective Master Fund. PVA's affiliate, Parallax Partners, LLC, a California limited liability company ("*Parallax Partners*"), is the general partner to every limited partnership in these fund structures (i.e. each Cayman Islands Master Fund and each onshore feeder fund). Each of the Master Funds and the feeder funds is individually referred to as a "*Fund*," and they are referred to together as the "*Funds*."

Parallax Core: Parallax Master Fund, L.P., Parallax Fund, L.P., and Parallax Offshore Investors Fund Ltd. are the "*Parallax Core*" funds. Parallax Fund, L.P. launched in 1996, and the other Parallax Core Funds launched in 2007. Parallax Core employs an equity volatility relative value strategy that targets the most attractive risk adjusted portfolio of volatility exposures through US and non-US options contracts (including covered and uncovered puts and calls) and other securities instruments. Parallax Core also includes the Cygnus Alpha strategy (described below) as a substrategy as of the date of this brochure, and it may include other substrategies in the future.

Cygnus Alpha: Cygnus Alpha Master Fund, L.P., Cygnus Alpha Fund, L.P., and Cygnus Alpha Offshore Fund Ltd. ("*Cygnus Alpha*") launched in April of 2018. PVA expects to wind down and dissolve the Cygnus Alpha Funds in the second quarter of 2020.

Additional information about each fund family's investment strategies is in Item 8 of this brochure. PVA is authorized to enter into any type of investment transaction that it deems appropriate under the terms of each Master Fund's respective Investment Adviser Agreement.

PVA may launch additional investment funds and may manage additional client accounts or funds at any point in the future. PVA may not update this brochure to reflect additional clients if such change is immaterial.

Fund investors have no opportunity to select or evaluate any investments or strategies. PVA selects all Master Funds' investments and strategies. PVA does not tailor its advisory services to the individual needs of particular Fund investors and manages each Master Fund only in accordance with its stated strategy.

## **Item 5. Fees and Compensation**

**Management Fees.** Fund investors pay PVA a management fee. The management fee for Parallax Core is equal to 3% per year on the first \$200 million in aggregate net assets of the feeder funds, excluding the net asset value of amounts as to which PVA has waived its management fee, and 1.5% per year of the amount by which such aggregate net assets of the feeder funds exceed \$200 million, and it is paid quarterly. This management fee is allocated to the respective investors of each feeder fund (other than investors for whom PVA has waived the management fee) proportionately based on their respective investment.

Cygnus Alpha investors had two fee options, a standard option with a management fee of 1% per year of the respective investor's capital account balance (see additional details below regarding the performance allocation component of this standard option), and a management fee only option with a management fee of 1.75% per year of the respective investor's capital account balance. In each case, the Cygnus Alpha management fee is paid monthly.

Each management fee is paid to PVA on the first day of the applicable period, based on the net market values of Fund investors' capital accounts on that date.

**Performance Allocation.** Additionally, Parallax Core allocates to Parallax Partners from each Fund investor a performance allocation equal to 25% of net profits (including both realized and unrealized gains and losses) that the Funds would otherwise allocate to such investor.

The Cygnus Alpha Funds allocate to Parallax Partners from each standard option investor a performance allocation equal to 15% of net profits (including both realized and unrealized gains and losses) that such Fund would otherwise allocate to such investor. No performance allocation is made with respect to Cygnus Alpha investors in the management fee only option.

All performance allocations are assessed in arrears on an annual basis, on the last day of each fiscal year (December 31), and also upon a Fund investor's withdrawal or redemption of capital during the year, with respect to the amount withdrawn or redeemed. Performance allocations only apply to the portion of profits that exceed the cumulative losses previously incurred by Fund investors, otherwise known as a high water mark.

PVA complies with Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "*Advisers Act*"), to the extent applicable. Performance allocations may create an incentive for PVA to make more risky and speculative investments than it would otherwise make.

**General.** If PVA deems it appropriate for any Master Fund to invest in certain investment companies or funds such as mutual funds, exchange traded funds (ETFs), or money market funds, the investment advisory fees to the managers of those investment companies or funds are borne by the Funds that participate in such investment.

PVA believes that its fees and performance allocations are competitive with fees charged by other investment advisers for comparable services. However, comparable services may be available from other sources for lower fees. Fees are generally non-negotiable, but the

Funds may waive fees and performance allocations for certain Fund investors such as PVA employees and limited partners, and their family members and friends.

The disclosure in this Item 5, together with the disclosure in Item 12, allow a plan that is subject to the Employee Retirement Income Security Act of 1974 (“ERISA”) and that invests in a Fund to use the “alternative reporting option” to report PVA’s compensation as “eligible indirect compensation” on the Schedule C of the plan’s Form 5500 Annual Return/Report of Employee Benefit Plan.

Fees Relating to Terminations, Withdrawals and Redemptions. PVA’s relationship with each Fund will terminate on expiration of the Fund’s term, dissolution of that Fund or on PVA’s withdrawal or other termination as investment adviser of that Fund. An investor may withdraw or redeem from a Parallax Core Fund on the last day of any calendar quarter (subject to PVA’s right to suspend withdrawals or redemptions in certain unusual circumstances and the 25% gate limitation described below) by giving the respective Fund at least 45 days advance notice. If a Parallax Core investor makes a withdrawal or redemption within the first year of the investor’s investment in that Parallax Core Fund, in most cases that investor must pay the Parallax Core Fund a fee of up to 2% of the amount withdrawn or redeemed.

The Parallax Core Funds may limit investor withdrawals and redemptions to 25% of the aggregate net assets of the Funds (excluding certain assets) on any quarter end, except that the Parallax Core will not apply this restriction to any investor on a quarter end if that investor’s withdrawal or redemption request on the 2 immediately preceding quarter ends was reduced as a result of the 25% limitation.

An investor may withdraw or redeem from a Cygnus Alpha Fund on the last day of any calendar month (subject to PVA’s right to suspend withdrawals or redemptions in certain unusual circumstances) by notifying the respective Fund on or before the 15th day of the month of the withdrawal.

In all cases for all Funds, investors bear expenses, the pro rata portion of the respective management fee and the performance allocations through the date of termination, withdrawal or redemption. If an investor in Parallax Core withdraws or redeems effective on a date other than the last day of a quarter, and that investor also bears a fee of up to 1% of the amount withdrawn or redeemed. Regardless of the date of the withdrawal or redemption, Funds do not refund any management fee previously paid by that investor.

Expenses. Each Fund is responsible for its own costs and expenses, as described in the respective Funds’ offering materials. Because of Parallax Core’s unique strategy, its operating expenses typically are much higher, as a proportion of Parallax Core’s assets, than other investment funds. The Funds bear many operational expenses, such as quotation equipment, computer and data systems, trade reconciliation tools and software, data storage relating to trades and other trade-related ongoing expenses that other investment advisers may bear instead of passing such expenses through to their clients. Except as described above, PVA and Parallax Partners each bears its own general, administrative and overhead costs and expenses. Securities brokerage firms and futures commission merchants

(“*FCMs*”) that execute securities and commodities trades for any or all of the Funds, however, may pay all or part of these costs and expenses, as discussed in Item 12 below.



**Item 6.            Performance-Based Fees and Side-By-Side Management**

As noted above, PVA currently manages only the private Funds described in Item 4, which provide performance-based allocations to Parallax Partners, as described in Item 5. It does not manage accounts that do not pay performance-based compensation, except that Cygnus Alpha investors may elect the management fee only option and PVA and Parallax Partners may waive some or all fees for certain Fund investors, such as PVA employees and limited partners, and their family members and friends.

**Item 7.       Types of Clients**

PVA currently provides investment advice only to the private Funds described in Item 4. Investors in the any of the Funds are required to invest a minimum of \$2,000,000, but PVA may waive this minimum.

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

### Investment Strategy.

*Parallax Core* invests in and trades primarily, but not solely, U.S. and non-U.S. options (including covered and uncovered puts and calls), stocks and other equity related securities, futures and options on futures, commodities and options on commodities, bonds, notes, warrants, bills, participating and convertible debt instruments, rights, currency forward contracts, swaps and other derivative instruments and other securities of U.S. and non-U.S. issuers that are traded publicly and privately. It also engages in margin trading and seeks to profit from declines in the value of securities and hedge its positions by short selling, futures trading and other strategies.

Parallax Core seeks to achieve its investment objective by investing in securities that PVA believes present arbitrage opportunities, including, without limitation, opportunities resulting from a disparity in the pricing of related securities and “risk arbitrage” opportunities. An opportunity to take advantage of a disparity in pricing of related securities is present when a selected security or a group of securities is, in the opinion of PVA, undervalued in relation to (a) any other related or unrelated security, index, or group of securities or (b) the selected securities’ theoretical or estimated value as judged by PVA. A “risk arbitrage” opportunity exists when a security or a group of securities is, in the opinion of PVA, undervalued in relation to the anticipated value of the cash, securities or other consideration to be paid or exchanged for such securities in a proposed corporate transaction.

The Parallax Core offshore feeder Fund offers tranches of shares that include hedging against various non-US currencies, and for which investors may subscribe and redeem their shares in those currencies. This Fund currently offers tranches of shares that hedge against Australian dollars, Canadian dollars and Japanese yen, and it may offer additional currency tranche shares in the future.

*Cygnus Alpha* invests and trades in primarily, but not solely, U.S. and non-U.S. exchange-traded index options and other index derivatives. PVA expects to wind down and dissolve the Cygnus Alpha Funds during the second quarter of 2020.

*General.* The investment strategies of the fund families summarized above represent PVA’s current intentions, are general in nature and are not exhaustive. None of the Funds have limits on the types of securities or commodities they may hold, the types of positions that they may take, the concentration of their investments or the amount of leverage that they may use. PVA frequently adjusts Parallax Core’s trading and investment techniques, and in any such case the revised or new techniques may present new risks not described below. Investors should expect that over time any of the Funds may use trading or investment techniques other than those contemplated by the investment strategy described above. In addition, there are limitations in describing any investment strategy due to its complexity, confidentiality and indefinite nature. Depending on conditions and trends in securities and commodities markets and the economy generally, PVA may pursue any objectives or use any techniques that it considers appropriate and in the Funds’ interest.

All of the feeder Funds invest substantially all their assets in the respective fund family's Master Fund.

### Risk Factors.

Investing in securities and commodities involves risk of loss that investors should be prepared to bear. Below are brief summaries of some of the risks that investors should consider before investing in a Fund. Any or all of such risks could materially and adversely affect investment performance, the value of a Fund or any security or commodity held in any Master Fund, and could cause investors to lose substantial amounts of money. Potential Fund investors should review such Fund's offering materials carefully and entirely, and consult with their professional advisers before deciding whether to invest. A potential client or Fund investor should discuss with PVA's representatives any questions that such person may have before investing in a Fund.

#### *General*

- The Funds may not achieve their investment objectives. A strategy may not be successful and investors may lose some or all of their investment.
- Messrs. Hutchison and Bartlett and the PVA trading team may devote a significant amount of time to activities other than trading. PVA may change the members of its portfolio management team from time to time without notice. If a significant number of the trading team should cease to participate in PVA's activities, its ability to select attractive investments and manage its portfolio could be impaired.

#### *Risks Associated with the Funds' Investment Strategy*

- PVA and the Funds, and their service providers, rely heavily on internal and third-party computer hardware and software, online services, data feeds, including those focused on market data, trading platforms, and other technology and equipment to conduct the Master Funds' investment and trading activities, and trade settlements, operations and accounting processes. Disruptions or malfunctions in the operation of any such technology or equipment, or the communications, power or infrastructure necessary to operate these systems, may make it difficult or impossible to implement a given Master Fund's investment strategy and could materially and adversely affect any or all of the Funds. Examples of such circumstances include natural disasters, terrorism, cybersecurity attacks, pandemics, public service or utility disruptions or utility problems such as those caused by fires, floods or earthquakes; market trading halts; systems failures; and other extraordinary events. Disruptions or malfunctions in the operation of any of that technology or equipment could materially adversely affect any or all of the Funds.
- The Master Funds' trades are frequently made on electronic markets or using electronic trade routing, and also may utilize proprietary investment models and/or algorithmic execution strategies. Such reliance on technology and software presents risks related to system access, varying response times, security, and system or component failure. In

the event of system or component failure, it is possible that for a certain time period, it might not be possible to enter new orders, execute existing orders or modify or cancel orders that were previously entered. Such an event may result in material losses for any or all Funds.

- PVA's strategies and techniques are continually evolving, and investment positions reflecting new strategies and trading techniques will be incorporated into Parallax Core's portfolio from time to time. PVA is not restricted from using Parallax Core's capital to develop and incubate new strategies, even if PVA has limited experience in the type of strategy or in the markets or instruments involved. New strategies developed at the expense of Parallax Core may be unsuccessful or more speculative than Parallax Core's established strategies and the resources allocated to implementing new strategies may adversely affect Parallax Core's established strategies.
- Although PVA does employ various security measures, it and the Funds still may be vulnerable to computer viruses, cybersecurity attacks from viruses, malware, computer hackers or other malicious corruption of their information technology systems. Cybersecurity breaches of the systems of PVA or the Funds, or their service providers (including accountants, custodians and administrators) may cause disruptions to business operations, cause losses due to theft or other reasons, interfere with the Funds' net asset value calculations, impede trading, or lead to violations of applicable privacy and other laws, regulatory fines and penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. PVA cannot control the cybersecurity plans and systems put in place by service providers and the issuers in which any of the Master Funds invest. System breaches can and do occur. Any cybersecurity breach could materially and adversely affect the Funds.
- The Master Funds' investment strategies may include frequent trading in options, swaps, forwards, contracts for difference, futures, commodities and other derivatives. The prices of these instruments generally are more volatile than the prices of the underlying securities, and prices of futures and other commodities are particularly volatile. The Master Funds may speculate on the prices of such derivatives of securities, commodities and securities exchange indices while investing only a small percentage of capital in relation to the value of the underlying securities, permitting a high degree of leverage, which is also known as margin trading or borrowing on margin.
- Swaps and other securities-linked derivatives may be structured as contracts between a Master Fund and a counterparty. These positions present special risks to such Master Fund, including that they can be highly leveraged and that such Master Fund has exposure to the counter-party's creditworthiness. In addition, a Fund may not be able to control when a swap or similar derivative terminates, and a swap that has a relatively long term may be difficult or impossible to liquidate before it terminates. These contracts are not traded on exchanges and present significant liquidity risks, especially in times of market disruption.

- A Master Fund may trade in non-U.S. options, swaps, forwards, futures, commodities and other derivatives, which present additional risks of loss. Trades in non-U.S. derivatives execute and clear on non-U.S. boards of trade, and are subject to local laws and regulations and foreign currency exposure. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight. In addition, any variance in the foreign exchange rate of the currency in which the derivative is denominated affects the price of such derivative.
- Using stock index futures contracts involves particular risks. Price movements in the stock index and the underlying securities do not always correlate. Positions in futures contracts may be closed out only on the exchange on which they were entered into or through a linked exchange. There is no secondary market for such contracts. In addition, there may be no active market for the contracts at any particular time. Some exchanges do not permit trading in particular contracts at prices that fluctuate more than a set limit in any day. If prices fluctuate during a single day beyond those limits, a Master Fund may not be able to timely liquidate unfavorable positions and losses could result.
- A Fund may use significant leverage by borrowing substantially on margin, entering into swaps, selling securities short and trading options, futures and other derivatives, which increases volatility and risk. Trading on margin also results in interest charges, which can be substantial. By trading financial derivatives, a Master Fund may trade with the economic equivalent of a substantially leveraged position in the underlying securities portfolio, in comparison to its actual assets. While all of these instruments are exchange traded, they also can be difficult to value. An incorrect valuation could result in losses for the Funds. The Master Funds may frequently sell covered and uncovered options on securities. Option prices generally are more volatile than prices of other securities. The sale of uncovered options could result in unlimited losses.
- The Master Funds trade in futures contracts and/or options on futures contracts. The trading market for futures positions may be illiquid, and trading may be suspended for regulatory reasons. Trading in commodity futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks. Furthermore, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss.
- The currency hedged tranches include positions that seek to minimize the differences between the respective Fund's performance in US dollars and the performance in the specific currency. For a variety of reasons, hedging may not be effective in controlling risk due to, for example, unexpected non-correlation (or even positive correlation). There may also be a mismatch in timing of the various trades relating to the currency hedging positions and the respective Fund's main portfolio.

- The Master Funds may have higher portfolio turnover and transaction costs than a similar account managed by another investment adviser. These costs reduce the capital invested and potential profit, or increase losses.
- Any Fund may have significant exposure to short positions. Selling securities short generally poses in a theoretically unlimited risk of loss if the prices of the securities sold short increase. In addition, given the general upward trend of the Securities markets over time, this short exposure poses a significant risk to investors. A Fund may materially underperform the market and could lose money during periods of strong market performance. Management and stockholders of an issuer may sue short sellers to deter short sales of the issuer's securities. PVA and the Funds could be subject to such actions, even if they are baseless, and the Funds could incur substantial costs defending them. To make a short sale, a Master Fund must borrow the securities being sold short. It may be impossible to borrow securities at the most desirable time to make a short sale, particularly in illiquid securities markets. Special rules, which vary by jurisdiction, apply to short sales. For example, temporary or permanent governmental orders may from time to time prevent a Master Fund from executing short sales of these securities at the most desirable time. If the prices of securities sold short increase, a Master Fund may need to provide additional funds or collateral to maintain the short positions. This could require a Master Fund to liquidate other investments to provide additional collateral. Such liquidations might not be at favorable prices.
- The Master Funds may invest in registered investment companies, such as mutual funds or exchange traded funds (ETFs). Investments in such investment companies present additional risks other than the risks of directly investing in the underlying investments of such investment companies. For example, an ETF may own a significant portion of securities that deviate from the ETF's stated core purpose, or the bid and ask spread for its shares may become significant if the ETF becomes thinly traded and therefore less liquid. Investors in an ETF generally bear all expenses of the ETF, including fees of its investment adviser and custodian, brokerage commissions and legal and accounting fees. As a result, Fund investors bear two levels of advisory fees—the fees of PVA and Parallax Partners, and advisory fees charged by investment advisers of the investment companies in the respective Master Fund's portfolio. The respective Master Fund also bears its own expenses related to the purchase, sale or transmittal of ETF assets. Such fees and expenses may be expected to result in a higher cost of investment than would be the case if Fund investors were to invest directly in such investment companies.
- The Master Funds engage in hedging, which may reduce profits, increase expenses and cause losses. Price movements in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging instrument. PVA is not obligated to hedge any Fund portfolio positions, and it frequently may not do so.
- A Master Fund may trade in futures and options on futures in many kinds of non-financial commodities, including those relating to natural resources, energy, metals, agricultural products and other sectors. Typically a Master Fund will trade in these

derivatives only if they are on a major, established exchange. Depending on the sector, prices of these derivatives may be highly volatile and are affected by numerous factors beyond PVA's control, including: the adequacy of supply; the price and quantity of imports; political conditions and events in other countries that produce such resources, including embargoes and military campaigns; government regulation; explosions, fires, accidents, mechanical breakdowns and the disruption of information technology and systems; climate change, weather conditions, storms, earthquakes, floods, drought, wildfires, pandemics, disease and similar natural disasters; the level of consumer and business demand, including unanticipated changes; transportation; worldwide conservation measures; technological advances; the price and availability of alternative fuels in the case of energy resources; forward selling by producers; purchases made by producers to unwind hedge positions; central bank purchases and sales; production and cost levels in major producing countries; economic or specific changes in an industry that uses a commodity for industrial applications, and global or regional political, economic or financial events and situations.

- PVA may not obtain complete or accurate information about an investment and may misinterpret the information that it does receive.
- Counterparties such as brokers, dealers, FCMs, and custodians with which PVA does business on behalf of the Funds may default on their obligations. For example, a Master Fund may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt. Further, a Master Fund may conduct some transactions, including swaps as described above, in "over-the-counter" or interdealer markets. These transactions expose the Funds to the risk that a counterparty may default on its agreement with the relevant Master Fund, resulting in losses.
- PVA may cause a Master Fund to enter into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging strategies.
- A Master Fund may trade in securities of Asian and other non-U.S., private and government issuers. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- PVA may from time to time identify an investment opportunity that it believes is attractive but either (1) inappropriate at any size, or (2) appropriate for a fund family, but too large for it. In that case, PVA may offer to certain new or existing investors, including PVA's principals, the opportunity to invest in such an investment separate from the current Funds. A new investment fund for such an opportunity may bear lower (or no) management fees and special profit allocations, as well as less frequent liquidity than the Funds. If PVA sets up a new investment fund for such an opportunity and the new fund invests in the opportunity alongside an existing fund family, the existing Funds may receive less favorable pricing or bear more than their pro-rata share of expenses relating to the opportunity, and sales by the new fund may adversely affect



the price at which the existing Master Fund's position in the same security is bought or sold.

- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities and commodities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.
- PVA may need to modify a fund family's investment strategy in the future to compete in a changing business environment or to respond to regulatory measures (U.S. or foreign government) adopted to address changes in market conditions or respond to a financial crisis. These potential future government measures may have further negative consequences for any Fund and may unpredictably diminish future available opportunities for any Fund. Given the unpredictable nature of the market environment, PVA may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments and trends in new products and services in the current or future market environment.
- Any Master Fund's portfolio positions may be or become illiquid at any time, in which case that Master Fund may not be able to sell such positions, at the risk of financial loss or detriment.

#### *Investment Funds' Structure Risk*

- PVA consults with the Funds' administrator to determine the value of securities and commodities held in a Master Fund's accounts, whether or not a public market exists for those instruments. If this valuation is inaccurate, PVA or Parallax Partners might receive more compensation than that to which they are entitled, or a new Fund investor might receive an interest that is worth more or less than the investor paid and an investor that is withdrawing or redeeming assets might receive more or less than the amount to which the investor is entitled, resulting in a loss for that investor or the other investors in that Fund.
- PVA places orders for the purchase and sale of securities with brokers and/or FCMs on behalf of the Master Funds. The trading process is complex and can vary for different types of instruments. PVA may make trade errors. The Funds and not PVA generally are responsible for any trade errors that PVA makes in an account, even when the error hurts the Funds or Fund investors, unless, at any time when the underlying assets of a Fund are treated as "plan assets" under ERISA and if the conduct resulting in such loss results from PVA's breach of its fiduciary duties under ERISA.
- PVA and its affiliates and agents generally are not responsible to any client or investor for losses incurred by a Fund unless the conduct resulting in such loss results from PVA's gross negligence or willful misconduct. However, if the underlying assets of a Fund are considered to be "plan assets" for purposes of ERISA, the enforceability of these provisions will be subject to the restrictions of ERISA.

- The Funds have engaged various service providers, such as the administrator, auditors, prime brokers and custodians. These service providers may not be subject to credit evaluation and regulatory oversight and may default on their contractual obligations to the Funds. Further, some of the contracts with these service providers include provisions that require the Funds to hold them harmless and indemnify them for losses and claims arising from their activities.
- Each Fund is a single legal entity, even if the Fund has multiple series or tranches of interests. A Fund's creditors may enforce claims against all of that Fund's assets, regardless of whether that liability is attributable to a particular series or tranche of interests.
- There is not currently an active market for Fund interests and there likely never will be. It may be impossible to transfer Fund interests, even in an emergency.
- A Fund may be unable to generate cash necessary to satisfy investor withdrawals and redemptions. Substantial withdrawals and redemptions in a short period could force a Master Fund to sell portfolio positions too rapidly, and may so reduce the size of such Fund that it cannot generate returns or reduce losses.
- If investors seek to withdraw or redeem more than 25% of the Parallax Core Funds' aggregate assets on any quarter end, those Funds may limit withdrawals and redemptions to such 25%, subject to certain exceptions.
- A Fund may establish a reserve for contingencies if PVA or Parallax Partners considers it appropriate. Investors may not withdraw or redeem assets covered by that reserve until it is lifted.
- If the assets that PVA manages grow too large, it may adversely affect performance because it is more difficult for PVA to find attractive investments as the amount of assets that it must invest increases.
- The attorneys who represent PVA do not represent the Funds or Fund investors. Fund investors must hire their own counsel for legal advice and representation.
- The Funds may dissolve or expel any investor at any time, even if such actions adversely affect such investor.
- PVA, the Funds' administrator or any government agency may freeze assets that any of them believes an investor holds in violation of anti-money laundering laws or rules or on behalf of a suspected terrorist, and may transfer such assets to a government agency. None of PVA, the Funds or the Funds' administrator will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations.
- The Funds do not intend to make distributions, but intend instead to reinvest substantially all income and gain. Therefore, an investor may have taxable income from a Fund without a cash distribution to pay the related taxes.

- Federal, state and international governments are increasing regulation of investment advisers, private investment funds and derivative securities, which may increase the time and resources that PVA must devote to regulatory compliance, to the detriment of investment activities. In addition, a Master Fund may be an electronic trading member of any option and/or commodities exchange. Although a Master Fund likely receives trading benefits from these memberships, it faces additional compliance burdens relating to exchange requirements.
- PVA currently is not registered as a broker-dealer with the SEC or FINRA. The interests in the Funds are not registered under the Securities Act of 1933, and the Funds are not registered investment companies under the Investment Company Act of 1940. PVA believes that none of these registrations is required because exemptions are available under applicable law. If a regulatory authority deems that any of these registrations is required, PVA and any Fund could be subject to expensive and distracting legal action and potential termination. In addition, investors in the Funds do not have certain regulatory protections that they would have if these registrations were in place.
- PVA's activities could cause adverse tax consequences to clients and investors, including liability for interest, penalties, and withholding. Significant tax legislation has recently been enacted, the interpretation and application of which is still uncertain, and other legislation has been proposed which, if enacted, could modify the tax treatment of Fund investors or the Funds themselves. Similarly, new withholding taxes and other changes to tax regulation, or adoption of new tax legislation or regulation, could adversely affect clients and investors.
- PVA's activities may cause an account that is subject to the ERISA to engage in a prohibited transaction under that Act. Although the assets of the Funds currently are not treated as "plan assets" for purposes of ERISA, PVA does not currently intend to restrict ownership of any Fund by ERISA investors, and PVA expects that benefit plan investors may in the future own over 25% of a Master Fund, which will cause that Master Fund's assets to become "plan assets" under ERISA. If any Fund's assets become "plan assets", ERISA and related tax provisions may limit such Fund's investments and PVA's activities.
- If a Fund becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.
- PVA and its affiliates have conflicts of interest between their own interests and the interests of the Funds. For example, they may spend time on activities that compete with a Fund without accountability to investors, including investing for other clients and their own accounts. If PVA receives better compensation and other benefits from managing other assets or client accounts compared to managing a Fund, it has incentive to allocate more time to those other activities. These factors could influence PVA not to make investments on a Master Fund's behalf even if such investments would benefit the Funds.

- PVA may provide certain investors or clients more frequent or detailed reports or notifications, special compensation arrangements and withdrawal or redemption rights that it does not provide to other investors or clients.
- PVA advises more than one distinct fund families. Although each fund family has its own unique objectives, risks and strategy, there are some overlaps between the fund families' investment positions, which presents potential conflicts in allocating investment opportunities. PVA investment allocation policy is discussed at Item 11 below. Certain fund-related expenses are also allocated between the fund families, based on the fund families' assets under management.

The above is only a brief summary of some of the important risks that a Fund investor may encounter. Before deciding to invest in a Fund, you should consider carefully all of the risk factors and other information in the respective Fund's offering circular or private offering memorandum.

**Item 9.           Disciplinary Information**

Neither PVA nor its management persons have any legal or disciplinary events to disclose that are covered by this item or otherwise material to an investor's or prospective investor's evaluation of PVA's advisory business or the integrity of its management.

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

PVA is a commodity pool operator that is registered with the CFTC and is a member of the National Futures Association. The Principals listed under that registration are S. Daniel Hutchison, William Bartlett and Jill Armstrong, as the managers of PVA's general partner, and Easton Chen as Chief Compliance Officer.

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

PVA has adopted a Code of Ethics in compliance with Rule 204A-1 under the Advisers Act that establishes standards of conduct for its supervised persons. The Code of Ethics requires PVA's supervised persons to comply with their fiduciary obligations to clients and applicable securities laws, and includes specific requirements relating to personal trading, insider trading, conflicts of interest, confidentiality of client information and other requirements. The Code of Ethics requires supervised persons to comply with the personal trading restrictions described below and to report their personal securities transactions and holdings periodically to PVA's Chief Compliance Officer, and requires the Compliance Department to review those reports. It also requires supervised persons to report any violations of the Code of Ethics promptly to PVA's Compliance Department.

PVA provides a copy of the Code of Ethics and any amendments to it to its supervised persons, each of whom must acknowledge having received the materials. Periodically, each supervised person must certify that he or she complied with the Code of Ethics. Clients and prospective clients may obtain a copy of PVA's Code of Ethics by contacting Easton Chen at [echen@parallaxfund.com](mailto:echen@parallaxfund.com) or (415) 445-6646.

Under PVA's Code of Ethics, PVA's officers and employees may personally invest in equities or other securities only with prior approval from PVA's Compliance Department. In addition, such persons generally may execute only a limited number of pre-approved trades in a calendar month and generally must hold positions for a minimum number of days, unless PVA waives these restrictions. PVA uses tracking software to compare all employees' trades against these restrictions. The Compliance Department also conducts forensic testing to look for patterns of abuse. These persons also must submit to the Compliance Department quarterly reports regarding transactions and active accounts, as well as annual confirmations of holdings, active accounts and various compliance acknowledgements.

Because PVA manages more than one fund family, there may be conflicts of interest over its time devoted to managing any one account and allocating investment opportunities among all accounts that it manages. For example, PVA selects investments for each fund family based solely on investment considerations for that fund family. Different Master Funds have differing investment strategies and expected levels of trading. Because the Parallax Core fund family includes the Cygnus Alpha strategy at this time (and may include other fund family strategies in the future), trades in each of those other strategies are frequently allocated between Parallax Core and one or more other strategies. However, for other trades, PVA will buy or sell a security for one Master Fund but not for another, or may buy (or sell) a security for one Master Fund while simultaneously selling (or buying) the same security for another Master Fund. PVA attempts to resolve all such conflicts in a manner that is generally fair and equitable to all of its clients. Because each fund family has its own strategy, PVA may give advice to, and take action on behalf of, one fund family that differs from the advice that it gives or the timing or nature of action that it takes on behalf of another fund family.

## **Item 12. Brokerage Practices**

PVA has complete discretion in selecting the broker or FCM that it uses for client transactions and the commission rates that a Fund pays. PVA strives to allocate portfolio transactions to brokers and FCMs based primarily on best execution, including net price and other factors. These other factors include, for example:

- clearance, settlement and reputation;
- financial strength and stability;
- efficiency of execution and error resolution;
- the availability of stocks to borrow for short trades;
- special execution capabilities;
- block trading and block positioning capabilities;
- willingness to execute related or unrelated difficult transactions in the future;
- order of call;
- custody, recordkeeping and similar services;
- offering to PVA on-line access to computerized data regarding clients' accounts; and
- other matters involved in the receipt of brokerage services generally.

PVA may also receive from a broker or FCM or allow a broker or FCM to pay for the following (each a "soft dollar" benefit):

- research reports, services, industry conferences and economic and market information;
- investment opportunity idea generation;
- performance measurement data;
- on-line pricing;
- industry and company comments; and
- technical data and recommendations.

PVA may cause a Master Fund to pay a brokerage commission that exceeds that which another broker or FCM might charge for effecting the same transaction in recognition of the value of the brokerage and other services and relationships provided to PVA by that broker or FCM.

PVA may purchase (via a formal soft dollar 28(e) safe harbor account or other similar arrangement) from a broker or FCM or allow a broker or FCM to pay for research, information and other services described above, and all or a portion of the costs and expenses of operation of PVA or the Funds, such as computer hardware and software, newswire and data processing charges, quotation services, periodical subscription fees and the like, although PVA does not engage in those practices at this time. If it did purchase or obtain these items through brokers or FCMs, the Funds may be deemed to be paying for these other services with "soft" or commission dollars as well as profits that brokers make on principal trades.



Federal law provides a “safe harbor” to investment advisers who use commission dollars of their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the adviser in performing investment decision-making responsibilities. Conduct outside of the safe harbor is subject to the traditional standards of fiduciary duty under state and federal law. If PVA receives soft dollar goods and services with respect to a Fund’s brokerage transactions in the future, they are expected to be within this safe harbor, and, during the time that the assets of a Fund are considered to be “plan assets” under ERISA, the soft dollar goods and services are required to be with this safe harbor. In addition, PVA may in the future receive soft dollar credits on principal, as well as agency, securities transactions with brokers and FCMs.

The relationships with brokers and FCMs that provide services to PVA influence PVA’s judgment in allocating brokerage transactions and create a conflict of interest in using the services of those brokers and FCMs to execute a Fund’s brokerage transactions. The brokerage fees that a Fund pays benefit PVA at the expense of such Fund, to the extent that the brokers provide service to PVA that are not otherwise reimbursable by the Funds. PVA believes that these relationships benefit it and the Funds, but Fund trades executed through these firms or any other broker or FCM may or may not be at the best price otherwise available.

PVA addresses these conflicts of interest by periodically evaluating the trade execution services that it receives from the brokers and FCMs that it uses to execute trades for clients. Such evaluation includes comparing those services to the services available from other brokers and FCMs. PVA considers, among other things, alternative brokers, market makers and market centers, the quality of execution services, the value of continuing with various services and adding or removing brokers or FCMs, increasing or decreasing targets for each broker or FCM and the appropriate level of commission rates.

PVA also may direct Fund brokerage transactions to brokers and FCMs that refer prospective investors to the Funds.

PVA has retained J.P. Morgan Securities LLC., Goldman Sachs & Co. LLC, Goldman Sachs International and Barclays Capital Inc. to serve as the Parallax Core’s prime brokers. PVA has retained Goldman Sachs & Co. LLC and Goldman Sachs International to serve as Cygnus Alpha’s prime brokers. In general, these prime brokers, and in some cases their affiliates, also serve as the custodians of substantially all the assets of the respective fund families, and as mentioned above all feeder funds invest substantially all of their assets in the respective fund family Master Fund. PVA may replace any firm or appoint one or more additional prime brokers at any time for any Fund. The services that these firms currently provide as prime brokers may include custody, margin financing, trade execution, clearing, settlement and stock borrowing in accordance with the terms of the prime brokerage agreements entered into between the Funds and these firms. These firms may provide other services to PVA, including news and stock market information systems and connections, consulting services, capital introduction services and access to electronic communications networks. PVA uses a substantial portion of these services for research and trading on behalf of the Master Funds, but if any is used for administrative purposes that use would not be within the federal safe harbor described above. Although many prime brokers

provide similar services to investment advisers in exchange for brokerage, custody and clearance fees and other charges, if PVA did not receive these services from a broker or FCM, PVA would be required to pay for all or some portion of them. PVA is not required to direct a particular number of trades to any prime broker or to continue to use that firm as a custodian, but it has an incentive to do so based on such services.

Each prime broker's address is listed below. All custodians of the Funds (including affiliates of the Funds' prime brokers) are listed in Item 25 of Section 7.B(1) of Schedule D of PVA's Form ADV, Part 1A.

J.P. Morgan Securities LLC	383 Madison Avenue, New York, NY 10179
Goldman Sachs & Co. LLC	200 West Street, New York, NY 10282
Goldman Sachs International	133 Fleet Street, London EC4A 2BB, United Kingdom
Barclays Capital Inc.	745 7th Avenue, New York, NY 10019

None of PVA's clients may direct brokerage selection.

**Item 13.      Review of Accounts**

S. Daniel Hutchison, PVA's principal portfolio manager, reviews the Funds' portfolios daily, or more frequently as appropriate. Those reviews take into account such matters as concentrations, risk exposure and capital usage.

PVA provides a monthly summary report estimating performance results, and annual tax information and audited financial statements to Fund investors.

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

PVA has no arrangements to compensate any person directly or indirectly specifically for investor or client referrals. If it does enter into any such arrangement, PVA will disclose in writing to the client and comply with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, to the extent required by applicable law.

**Item 15. Custody**

The explanation required by this item does not apply to PVA's custody or account arrangements. Under the SEC's custody rule, PVA is deemed to have custody of all Fund assets because its affiliate, Parallax Partners, serves as the general partner of each Master Fund. In accordance with the SEC's custody rule, PVA has arranged that:

- Each Fund's financial statements are audited on an annual basis in accordance with the U.S. generally accepted accounting principles by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board,
- Such audited financial statements are distributed to each Fund's investors within 120 days of the end of that Fund's fiscal year, and
- All Fund assets, with the exception of certain private securities that are held in accordance with the August 2013 Custody Rule guidance from the SEC's Division of Investment Management, are held at prime brokers and custodial banks, all of whom are qualified custodians under the SEC's custody rule.

**Item 16. Investment Discretion**

PVA has discretionary authority to manage all Master Fund investment portfolios pursuant to a grant of authority in each Master Fund's respective Investment Adviser Agreement.

## **Item 17. Voting Client Securities**

The Master Funds that generally trade derivative instruments (such as options) are likely to hold, periodically, long and short positions in non-derivative equity securities to hedge investments in derivative instruments. Such equity investments are generally held for less than two months. Because equity positions are generally held for such a short time, when a Master Fund holds an equity security on the record date for an annual shareholder meeting, it usually has traded out of that security before the meeting occurs. PVA believes that voting equity securities in which a Master Fund no longer holds a position may not be in the best interest of the Master Fund.

PVA generally monitors the markets and information available about these equity securities. This monitoring often includes corporate events such as proposed mergers, acquisitions and other significant matters for which the issuer will request shareholder approval, or ballot measures contested at shareholder meetings. If an issuer gives notice for a shareholder meeting (other than an annual shareholders meeting at which compensation, non-contested elections of directors and other ballot items that are not expected to affect the price or volatility of the equity security or related derivatives) PVA considers whether holding that equity security (and the related derivatives, as appropriate) continues to be appropriate within a Master Fund's investment strategy, and it will trade that security as it determines is in the interest of the Fund. Even in these situations, PVA generally does not vote proxies distributed in connection with these events because it does not expect to hold the equity securities long enough for the event to affect the Fund's investment.

A client can obtain a copy of PVA's proxy voting policy and a record of votes cast by PVA on behalf of that client by contacting Easton Chen at the contact information shown in Item 11 above.

**Item 18. Financial Information**

PVA does not require prepayment of advisory fees and is therefore not required to include a balance sheet for its most recent fiscal year. PVA is not the subject of any financial condition that is reasonably likely to impair its ability to meet its contractual obligations to the Funds or the subject of any bankruptcy petition, nor has it been the subject of any bankruptcy petition at any time during the past 10 years.



## Privacy Notice

Parallax Volatility Advisers, L.P. (“PVA”) and its affiliate, Parallax Partners, LLC (“Parallax”), and the private funds to which PVA serves as the investment adviser (the “Funds”) are committed to safeguarding the confidential information provided to them by their clients, limited partners and shareholders, former clients, and persons who have applied to be clients, limited partners and shareholders (together, “Clients”). This notice provides information to you about the privacy policies and practices of PVA, Parallax and the Funds.

PVA, Parallax and the Funds may collect nonpublic personal information about Clients from the following sources: correspondence, electronic communications, interviews and other conversations between Clients and representatives of PVA or the Funds; subscription agreements, offering questionnaires and other documents provided by Clients; and information about Clients’ transactions with a Fund, its affiliates and others. PVA, Parallax and the Funds collect from Clients: information concerning the financial circumstances of Clients in order to ascertain their ability to invest in the Funds (e.g., information about household income and net worth); certain identifying information (e.g., Social Security numbers); information necessary to conduct financial transactions associated with investments in the Funds (e.g., bank account details); and other personal information that may be used to communicate with Clients, some or all of which may not be publicly available (e.g., email addresses, residential and business addresses, and telephone numbers).

PVA, Parallax and the Funds do not disclose any nonpublic personal information about any of their Clients to anyone, except as permitted by law. Disclosures that are permitted by law include disclosures that are necessary to effect, administer or enforce a transaction that a Client requests or authorizes. Other examples of disclosures that are permitted by law are disclosures to the accountants, auditors and lawyers of PVA, Parallax and the Funds, disclosures to regulators that examine PVA’s or the Funds’ business and disclosures that Clients specifically request.

PVA, Parallax and the Funds do not provide personal information about investors to mailing list vendors or solicitors for any purpose, and they never sell personal information. PVA, Parallax and the Funds restrict access to nonpublic personal information about Clients to the PVA’s employees who have a business or professional reason to know such information. In addition, PVA, Parallax and the Funds strive to maintain a secure office and computer environment to ensure that the confidentiality of Clients’ information is not placed at unreasonable risk.