

AVALON

ADVISORS, LLC

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This brochure provides information about the qualifications and business practices of Avalon Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (713) 238-2050 and/or compliance@avalonadvisors.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Avalon Advisors, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Avalon Advisors, LLC may refer to itself as a "registered investment adviser." Registration with the SEC or any state securities authority does not imply a certain level of skill or training.

MATERIAL CHANGES

Since the annual amendment filed March 30, 2016, the following material changes have occurred:

Beginning May 1, 2016, Avalon no longer offers the Avalon Tactical Equity Account. Beginning June 1, 2016, Avalon offers the Avalon Tactical ETF Account with the same investment objective but potentially lower portfolio turnover. This impacts the Sections "Advisory Business" and "Methods of Analysis, Investment Strategies and Risk of Loss."

Beginning March 31, 2016 through June 30, 2016, the fee on the Avalon Cash Account may be calculated on performance. The resulting fee will never be higher than the tiered Fixed Income fee schedule. Because the fee may be based on performance, this strategy may only be offered to "qualified clients." This impacts the Sections "Fees and Compensation" and "Performance-Based Fees and Side-by-Side Management."

Beginning July 1, 2016, Avalon may waive a portion of its fees on the Avalon Cash, Enhanced Liquidity Short Duration and Short Duration Fixed Income Accounts during unusually low yield environments. Avalon considers a variety of factors in determining the amount or percentage of such waivers and is not obligated to waive or continue to waive fees nor to do so based on any set formula. This impacts the Sections "Fees and Compensation" and "Performance-Based Fees and Side-by-Side Management."

Beginning August 1, 2016, the fee schedule for Avalon Total Market Fixed Income Account is increased. This impacts the Section "Fees and Compensation".

Beginning October 1, 2016, the first breakpoint in asset level for each of Cash, Fixed Income and Total Market Fixed Income Accounts is raised from \$10,000,000 to \$20,000,000. This change may result in higher assessed fees, depending on the level of assets being managed. The Avalon High Income Municipal Account no longer is offered below \$10,000,000 in assets; the annual fee percentage is raised at each level and new breakpoints are added. These changes result in higher assessed fees. All of these changes impact the Section "Fees and Compensation."

As of November 29, 2016, Avalon terminates the Solicitors Agreement with B & V Advisors, LLC. This impacts the Sections "Advisory Business" and "Client Referrals and Other Compensation."

As of December 16, 2016, a subsidiary of The Carlyle Group (NASDAQ:CG), Carlyle Financial Services Avalon, L.P., sells the remainder of its economic interests in Avalon to several Houston-based entities and individuals and raises the number of directors (called "elected managers") from seven to nine. This impacts the Section "Advisory Business."

As of December 20, 2016, Avalon acquires the advisory business of Matterhorn Capital Management, LLC which as of that date has withdrawn from registration as an SEC-registered investment adviser. This impacts the Section "Advisory Business."

As of December 20, 2016, Avalon offers the U.S. Value Equity Account, the International Core Equity and the Total Return Account and changes the name of the Avalon Tactical ETF Account to the Avalon Diversified ETF Account. This impacts the Sections "Advisory Business" and "Methods of Analysis, Investment Strategies and Risk of Loss."

While the material changes to this brochure have been highlighted above, clients may request a copy of the Form ADV Part 2A at any time without charge by sending a written request to our Chief Compliance Officer at our Houston address or by email to compliance@avalonadvisors.com.

TABLE OF CONTENTS

MATERIAL CHANGES	2
ADVISORY BUSINESS	5
FEEES AND COMPENSATION	11
PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT	18
TYPES OF CLIENTS	18
METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS	19
DISCIPLINARY INFORMATION	27
OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS	27
CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING	29
BROKERAGE PRACTICES	31
REVIEW OF ACCOUNTS	40
CLIENT REFERRALS AND OTHER COMPENSATION	41
CUSTODY	42
INVESTMENT DISCRETION	42
VOTING CLIENT SECURITIES	43
FINANCIAL INFORMATION	43

ADVISORY BUSINESS

Advisory Firm Description

Avalon Advisors, LLC ("Avalon" or the "Firm") has been in business since 2001 with offices in Houston, Texas and since 2014, in San Antonio, Texas; a second, temporary location in San Antonio was added in 2016 with the purchase of Matterhorn Capital Management, LLC. An owner of the Firm since 2011, on September 11, 2015, Carlyle Financial Services Avalon, L.P., a subsidiary of The Carlyle Group (NASDAQ: CG), sold a portion of its economic interest in Avalon to Cynosure Avalon Holdings I, LLC and Cynosure Avalon Holdings II, LLC, together ("the Cynosure entities"). The Cynosure entities are part of The Cynosure Group, LLC, a Salt Lake City, Utah-based firm that works with family offices to make long-term equity investments in private companies. Carlyle Financial Services Avalon, LP, sold the remainder of its economic interest in Avalon to several Houston-based entities and individuals in December 2016. With the sale, Avalon raised the potential number of elected managers (also called "directors") from seven to nine; no individual or entity owns 25% or more of Avalon.

Types of Advisory Services

Avalon, a Delaware limited liability company, provides both discretionary and non-discretionary investment advice, asset allocation and related services to high net worth separate account clients and institutional investors ("Private Clients"). Avalon also acts as investment manager to three privately placed pooled investment funds, referred to herein as "Avalon Private Funds": the Avalon Carlyle Private Equity Fund I, LP, the Avalon Global Real Assets Fund, LP and the Avalon High Income Municipal Fund, L.P. The Avalon Private Funds are exempt from registration under the Investment Company Act of 1940. Limited partner interests in the Avalon Private Funds are/were granted to those investors who satisfy the applicable eligibility and suitability requirements to invest in private placement transactions within the United States. Private Clients and Avalon Private Funds may be collectively referred to in this brochure as "Clients."

Tailored Advisory Services

Private Client assets advised by Avalon are divided into one or more separately managed portions (referred to herein as "Accounts"), with each Account serving a different purpose. These Accounts may include:

<u>Fixed Income</u>	<u>Equity</u>
<ul style="list-style-type: none">• Avalon Cash Account• Avalon Enhanced Liquidity Short Duration Account• Avalon Short Duration Fixed Income Account• Avalon High Grade Taxable Fixed Income Account• Avalon High Grade Tax Exempt Fixed Income Account• Avalon Taxable Fixed Income Account• Avalon Tax Exempt Fixed Income Account	<ul style="list-style-type: none">• Avalon Core Equity Account• U.S. Value Equity Account• Avalon Equity Income Account• Avalon Equity Income (No MLPs) Account• International Value Equity• Avalon International Equity Account• Avalon International Equity Income Account

(Chart continued on next page.)

Fixed Income

- Avalon High Income Municipal Account
- Avalon Total Market Fixed Income Account
- Avalon Custom Fixed Income Account

Equity

- Avalon Global Equity Account
- Avalon Global Equity Income Account
- Avalon SMID Cap Equity Account
- Avalon Global Energy Account
- Avalon Balanced
- Avalon Diversified ETF Account
- Total Return Account

Separately, each Client may have the following "Specialty Accounts", which are not actively managed by Avalon:

- Funding Account (Discretionary or Non-Discretionary)
- Permanent Cash Reserve
- Client Directed Portfolio Account
- Restricted or Control Stock Account
- Margin Account
- Alternative Investment Account

Each Specialty Account is described later in this section.

Avalon assesses the Client's individual needs (e.g., tax situation, diversification needs, other assets held, social concerns, etc.) to determine the appropriate asset allocation among the Accounts. Not all Client allocations include each type of Account. A Client's fees are determined, in part, by the Accounts selected, as discussed below. Additionally, as described below, Avalon will facilitate the ability of Clients with particular needs (e.g., positions in restricted or "control" stock, desire to use margin, desire to exercise discretionary authority over a portion of the Account) to establish certain Specialty Accounts, which may or may not be subject to additional fees charged by Avalon.

Under certain circumstances, Avalon may establish additional Accounts for a Client.

Except as otherwise described herein, investments for Private Clients are managed in accordance with the Client's investment objectives, strategies, restrictions and guidelines, as communicated to Avalon by the Client or the Client's primary advisor.

Private Funds:

Private Clients may be given the opportunity to invest in certain privately placed pooled investment vehicles managed by other investment advisors ("Private Funds"), which may be organized as domestic limited partnerships or limited liability companies or as non-U.S. entities. Avalon provides investment advice and other services related to these investments to such Clients ("Client Advisory Services") for a fee ranging from 0.50% to 1.00% (depending on the private fund); or, an entity that is related to Avalon as a general partner or via joint venture agreement may receive a portion of the Private Fund fees. Currently, Avalon maintains such arrangements with BlackGold® Capital Management, LP; f/64 Capital Management, LLC; Hawkins Capital, L.P.; JVL Advisors, LLC; and, Wallace Capital Management, Inc. Clients choosing to participate in these funds may be eligible for a reduction in the management fee charged by the Private Fund or its advisor.

To the extent that a Private Client invests in an Avalon Private Fund or Private Fund, the value of such interests is not included as part of the Client's Account when calculating Avalon's advisory fees. However, the Client Advisory Fee or the fees paid to Avalon or a related entity with respect to Private Funds may be based, in whole or in part, on such assets.

Additionally, an affiliate of Avalon, Avalon Wealth Management, LLC ("AWM"), engages in placing Private Funds for compensation. AWM is a member of the Financial Industry Regulatory Authority ("FINRA") and is registered with the Securities and Exchange Commission ("SEC") as a broker-dealer. Please see the Section "Other Financial Industry Affiliations and Activities" for more detailed information. To the extent that AWM receives compensation in connection with these private placements, no Client Advisory Fee will be charged.

Each Avalon Private Fund or Private Fund which may be offered to certain Clients is managed in accordance with its investment objective, strategies and guidelines and is not tailored to the individualized needs of any particular investor in the fund (each an "Investor"). Therefore, Investors must consider whether the Avalon Private Fund or Private Fund meets their investment objectives and risk tolerance prior to investing. Information about each Avalon Private Fund or Private Fund can be found in its offering documents, including its private placement memorandum ("PPM").

Each Private Fund offered by Avalon will be organized as a limited partnership or limited liability company under the laws of the State of Delaware or another appropriate jurisdiction, for which an Avalon affiliate will generally also serve as general partner or managing member, as applicable, but is not the investment advisor to the fund. Avalon expects each Private Fund to qualify for an exemption from the definition of "investment company" under the Investment Company Act of 1940, as amended ("1940 Act") under either 1940 Act Section 3(c)(1) or 1940 Act Section 3(c)(7) and to offer interests to Investors pursuant to Regulation D or Regulation S under the Securities Act of 1933, as amended ("1933 Act"). As a result, this disclosure brochure ("Brochure") may discuss information relevant to such investors, as necessary or appropriate. **Nonetheless, this Brochure is designed solely to provide information about Avalon and should not be considered to be an offer of interests in any Private Fund. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this Brochure is designed solely to provide information about Avalon for the purpose of compliance with certain obligations under the Advisers Act and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided in a PPM. To the extent that there is any conflict between discussions herein and similar or related discussions in any PPM, the PPM shall govern.

Avalon Private Funds:

Avalon Carlyle Private Equity Fund I, LP

The Avalon Carlyle Private Equity Fund I, LP ("Avalon Carlyle") is a fund-of-funds that seeks to provide investors with attractive returns through exposure to a portfolio of underlying private equity funds (the "**Carlyle Funds**") sponsored by Carlyle Investment Management L.L.C. or its affiliates (collectively, "**Carlyle**"). The fund is closed to new investors.

Avalon Global Real Assets Fund, LP

The Avalon Global Real Assets Fund, LP ("AGRA") is a fund-of-funds that seeks to provide investors with attractive returns through investing in a portfolio of underlying private

equity funds (the “**Targeted Funds**”), each of which are sponsored or advised by Carlyle Investment Management L.L.C. and its affiliates (collectively, “**Carlyle**”), or third party investment managers (together with Carlyle, the “**Portfolio Managers**”). The fund is closed to new investors.

Avalon High Income Municipal Fund, L.P.

The Avalon High Income Municipal Fund, L.P. (“High Income Municipal Fund”) was launched in August 2012. Its primary investment objective is to provide investors with income that is exempt from federal income tax by investing in municipal debt securities. Secondly, the High Income Municipal Fund may also seek to achieve capital appreciation by selling municipal debt securities on the over-the-counter (OTC) market. The High Income Municipal Fund may also invest in or hold other assets. Avalon Private Clients and non-clients may be solicited to invest in this Avalon Private Fund.

Specialty Accounts:

Funding Account (Non-Discretionary or Discretionary)

Clients who transfer securities portfolios for Avalon’s management are advised to establish a funding account to facilitate an analysis of securities which should be sold by Avalon or kept as part of an Avalon Account (“keep/sell analysis”) and to enable the client to direct the timing of investment into various Avalon Accounts. Assets in these accounts may be sold entirely at the client’s direction (non-discretionary) or the timing may be left to the discretion of the Client Advisor (discretionary); in either case, Avalon has trading authority over the Funding Account. Avalon does not charge a fee for this Account.

Permanent Cash Reserve Account

Clients who wish to maintain a reserve of cash for checking or funding commitments may wish to set up a cash reserve. Avalon will assist the client in establishing a brokerage account with preferred, unrelated custodial broker-dealers where the cash generally is invested in a money-market “sweep” product, which has its own fees and expenses, as described in the prospectus for the product. Avalon does not charge an additional fee for this Account. At the client’s written direction, Avalon may assist with money-movements to and from this Account.

Client Directed Account

Clients who wish to make certain investment decisions on their own may establish a Client Directed Account to facilitate these trades. Avalon will assist the client in establishing a brokerage account with preferred, unrelated custodial broker-dealers to benefit the client in obtaining transaction costs at Avalon’s negotiated, institutional rates. Avalon may also assume the Client Directed Account’s custodial fees. Avalon does not have trading authority on Client Directed Accounts.

Client Picks Account (Client Directed Account with Non-Discretionary Trading Authority)

Under certain legacy arrangements, clients who wish to make specific investment decisions on their own have established a different type of client directed account known as a “Client Picks Account.” In such cases, the Client informs Avalon as to the desired transactions and Avalon executes the trades on the Client’s behalf. Although Avalon will not review any Client Picks

trade as to the merits of such trade or for consistency with the Client's investment objectives, Avalon may review certain trades to determine whether such trades may be combined with other Client trades to seek best execution or for other reasons. Additionally, Avalon may hold or take action with respect to securities traded by a Client through a Client Picks Account in Avalon employee-related, proprietary or other Client accounts and shall be under no obligation to inform a Client requesting a Client Picks trade of any such holdings or actions.

Avalon will not act as a broker or dealer with respect to Client Picks trades. Rather, Avalon offers Client Picks Accounts the use of its trading desk in these circumstances as a courtesy and convenience to Clients and not for any transaction-based compensation. Avalon may determine to refuse any trade or discontinue access to its trading desk at any time, or from time to time, and for any reason, in Avalon's sole and absolute discretion. In particular, Avalon will not execute any options trade requested through a Client Picks Account, until such trade has been reviewed and approved by appropriate personnel within Avalon for administrative compliance purposes. While Avalon will seek to perform such review in a timely manner, Avalon shall not be responsible to the Client for any loss (including lost opportunity) or other financial impact associated with Avalon's approval or failure to approve such trades.

Restricted or Control Stock Account

Avalon Clients may hold restricted stock, or be an "Insider" or "Control Person" under federal securities laws. Avalon requests that Clients who hold securities subject to such restrictions inform Avalon of any affected positions, which will be segregated in a "Restricted or Control Stock Account." Avalon will sell such shares only upon receipt of such instructions from the Client.

Margin Account:

Avalon Clients may trade on a margin basis through a separate Margin Account

Alternative Investment Account

Avalon Clients may have an account holding one or more of the Avalon Private Funds or Private funds described above. Such an account will be made on separate written instructions and the terms of an individual Alternative Investment will be governed by the agreement relating to such investment.

Additional Services Available to Private Clients

Consolidated Reporting Services:

Clients may request that Avalon report on assets which are not held in an Avalon Account. Avalon provides manual tracking of such assets for informational purposes only and is not responsible for investment decisions related to such assets. Avalon will manually enter information about these assets from statements provided by the Client on a periodic basis (generally quarterly or annually), as agreed with the Client. Avalon is available to meet with the Client to review these investments at the Client's request.

Administrative Services for Non-Advisory Accounts:

In some instances, an Avalon Client may request that Avalon provide certain administrative services with respect to investment accounts not managed by Avalon and for which Avalon

provides no investment advice. Avalon may, in its discretion, accommodate these requests and charge a fee (which is typically a specified percentage of the value of the assets in such accounts) to cover the operational and administrative services provided by Avalon. The amount of the fee may vary based on the services provided but, as a general matter, will be 0.20% of the market value of the account assets.

Avalon Family Office:

Some Avalon Clients may ask Avalon to provide additional investment advisory advice and services on all of their investment accounts, including those accounts not managed by Avalon. The services of Avalon include providing the following for such Clients:

- Advise and assist Client in the development of an investment policy statement including the determination of short and long-term investment goals, downside risk tolerance, target returns and asset allocation ranges.
- Provide multi-manager advice based solely on information that is readily accessible through public sources or provided to Avalon by the Client for this purpose. The Client will make the final decision whether to engage any investment manager.
- Provide advice regarding timing of investment in various asset classes, including the transition of the portfolio to be in line with the long-term investment goals and asset allocation as outlined in the investment policy statement.
- Provide advice regarding rebalancing strategy and tactical shifts in the asset allocation.
- Provide consolidated reports of investments and performance measurement based on information supplied by the Client.

Subadvisory Services and Managed Account Programs:

Avalon may also act as a subadvisor to other asset managers. Avalon currently provides subadvisory services for several different firms (Amegy Bank, Financial Management Professionals, Inc., FreeGulliver, LLC, Houston Trust Company, Jefferson Bank, Republic Wealth Advisors (f/k/a Kenjol Capital Management, LLC), Springwater Advisors, LLC and UBS, the latter through its Managed Accounts Consulting ("MAC") and Institutional Consulting ("IC") programs). When serving as subadvisor, Avalon often does not have a direct relationship with the other manager's clients and does not generally have contact with those clients; however, in some cases, Avalon's level of contact may be significant and Avalon may have a direct relationship with the client. Where Avalon does not have a significant, direct relationship with the subadvised clients, the primary advisor is responsible for establishing the financial circumstances, investment objectives and investment restrictions of each subadvised client through an engagement agreement, client profile, questionnaire, investment policy statement or similar means as well as consultations with clients. Each client may enter into an advisory agreement with the primary advisor which dictates the terms and conditions of the relationship, including the fees paid to and services provided by or through the primary advisor.

Client Assets Under Advisement

At December 31, 2015, the Firm had \$5.706 billion under advisement. This includes: (1) \$4.429 billion of discretionary assets; (2) \$0.466 billion of other non-discretionary assets; and (3) \$0.811 billion of assets invested in Private Funds or Separately Managed Accounts which are not under Avalon's direct management. For this latter category, the Firm's Client Advisors

have recommended that qualified Clients invest in these Private Funds or Separately Managed Accounts and such Clients have followed the Firm's advice.

FEES AND COMPENSATION

Avalon's fees are described generally below and are detailed in each Client's investment advisory agreement and/or in the governing documents and PPM of each Private Fund or Avalon Private Fund. Except as otherwise negotiated with the Client, or described below, fees are generally calculated based upon the aggregate market value of all assets under management within the Client's Account(s), including allocations to cash and accrued interest. Avalon may group multiple Accounts of a Client (or group of Clients, such as a family) together for fee calculation and billing purposes.

Fees may change over time and different fee schedules may apply if Avalon accepts Clients other than Private Clients. As discussed below, fees for Private Client Accounts may be negotiable but fees for Private Funds and Avalon Private Funds are generally not negotiable. Nevertheless, Avalon reserves the right to waive or reduce the fees charged to Investors in an Avalon Private Fund, in its sole and absolute discretion; Avalon also may have negotiated with the advisor of a Private Fund to waive or reduce the fees charged to investors in the Private Fund. Specifically, fees may be waived or reduced with respect to investments made by, or on behalf of, Avalon and its employees, principals, partners or affiliates. Thus, some Clients or Investors may pay more or less than other Clients or Investors for the same or similar management services depending, for example, on the Account inception date, the number (or value) of related Accounts, the total assets under management by Avalon, and fee negotiation or fee waivers, if any.

Fees will be assessed and paid by deduction from an account quarterly in arrears or on such other basis as Avalon and the Client may subsequently agree in writing. Fees for Private Funds and Avalon Private Funds are assessed and paid as described in the governing documents and PPM of the applicable fund.

Fee Schedules

As noted above, fees for Private Clients depend, in part, on the Accounts selected for that Client's asset allocation. Breakpoints and minimums, if any, generally apply only to assets within the type of Account and do not depend on the Client's total assets in all Accounts managed by Avalon. Clients may be responsible for certain other fees and expenses (e.g., custodial fees, brokerage commissions and similar charges) associated with each of the Account types. Please see "Brokerage Practices" below for information about brokerage commissions and other transaction costs. Additionally, to the extent Client assets are invested in a pooled vehicle such as a mutual fund, Exchange Traded Fund ("ETF") or private fund (including money market funds for cash management purposes), the Client will also bear the additional fees and expenses assessed by such funds with respect to the Client's investment. Such fees compensate the manager and other service providers of the fund and are separate and in addition to the fees paid to Avalon for selecting and monitoring those investments. These fees are fully disclosed in each fund prospectus or private placement memorandum which is sent to each Client by the general partner or other authorized party of the Private Fund.

No management fee or performance-based fee is charged by Avalon for a Margin Account; however, the Client will be subject to any related fees charged by its custodian (or prime

broker). Avalon does not charge fees for Restricted or Control Stock Accounts. Please see "Client Advisory Services" above under "Advisory Services" for details on definitions of these Account types.

Fee schedules and minimum investments for the various accounts are described below:

Cash:

Fees for cash accounts are as follows; for fee purposes cash accounts are combined when computing breakpoints.

<u>Asset Level</u>	<u>Annual Fee</u>
First \$20,000,000	0.35%
\$20,000,001 to \$50,000,000	0.25%
\$50,000,001 to \$100,000,000	0.20%
Above \$100,000,000	0.15%

Fees for these accounts are charged quarterly in arrears.

Avalon may waive a portion of its fees on clients' cash accounts during unusually low yield environments. Avalon considers a variety of factors in determining the amount or percentage of such waivers and is not obligated to waive or continue to waive fees nor to do so based on any set formula. When the yield environment returns to ordinary levels, Avalon will resume charging fees in accordance with normal stated rates.

Fixed Income:

Fees with respect to taxable and tax-exempt fixed income accounts are shown below; for fee purposes taxable and tax-exempt accounts, (*excluding* Total Market Fixed Income and High Income Municipal Accounts) are combined when computing breakpoints:

<u>Asset Level</u>	<u>Annual Fee</u>
First \$20,000,000	0.35%
\$20,000,001 to \$50,000,000	0.25%
\$50,000,001 to \$100,000,000	0.20%
Above \$100,000,000	0.15%

Fees for these accounts are charged quarterly in arrears.

Avalon may waive a portion of its fees on clients' short duration fixed income accounts during unusually low yield environments. Avalon considers a variety of factors in determining the amount or percentage of such waivers and is not obligated to waive or continue to waive fees nor to do so based on any set formula. When the yield environment returns to ordinary levels, Avalon will resume charging fees in accordance with normal stated rates.

Total Market Fixed Income:

Fees with respect to Total Market Fixed Income Accounts are as follows; Total Market Fixed Income Account assets are not included in the asset size determination or fee calculation for the cash and fixed income accounts:

<u>Asset Level</u>	<u>Annual Fee</u>
First \$20,000,000	0.45%
\$20,000,001 to \$50,000,000	0.35%
\$50,000,001 to \$100,000,000	0.30%
Above \$100,000,000	0.25%

Fees for these Accounts are charged quarterly in arrears.

High Income Municipal:

Fees with respect to High Income Municipal Accounts are as follows; High Income Municipal Account assets are not included in the asset size determination or fee calculation for the cash and fixed income accounts:

<u>Asset Level</u>	<u>Annual Fee</u>
Under \$10,000,000*	Not available
\$10,000,001 to \$20,000,000	0.75%
\$20,000,001 to \$50,000,000	0.65%
\$50,000,001 to \$100,000,000	0.50%
Above \$100,000,000	0.40%

Fees for these Accounts are charged quarterly in arrears. The High Income Municipal Account minimum asset size is \$10,000,000.

Avalon Equity:

Fees with respect to equity accounts are as follows; for fee purposes equity accounts, (excluding Avalon SMID Cap Equity Accounts) are combined when computing breakpoints:

<u>Asset Level</u>	<u>Annual Fee</u>
First \$7,500,000	1.00%
\$7,500,001 to \$25,000,000	0.75%
\$25,000,001 to \$50,000,000	0.60%
Above \$50,000,000	0.40%

Fees for these accounts are charged quarterly in arrears.

Avalon SMID Cap Equity:

Fees with respect to Avalon SMID Cap Equity Accounts are as follows:

<u>Asset Level</u>	<u>Annual Fee</u>
First \$7,500,000	1.00%
Above \$7,500,000	0.75%

Fees for these Accounts are charged quarterly in arrears.

Avalon Balanced Portfolio:

Fees with respect to Balanced Portfolio assets are as follows:

<u>Asset Level</u>	<u>Annual Fee</u>
First \$7,500,000	0.85%
\$7,500,001 to \$25,000,000	0.70%
\$25,000,001 to \$50,000,000	0.55%
Above \$50,000,000	0.35%

Balanced Portfolio assets are *not* included in the asset size determination or fee calculation for the Cash and Fixed Income or Avalon Equity Accounts. Also note that the Avalon SMID Cap Equity Account and the High Income Municipal Account offerings are excluded from the Balanced Portfolio. Fees for Balanced Portfolios are charged quarterly in arrears.

Fees for Client Picks Accounts:

Fees for Client Picks Accounts are 0.25% annually, charged quarterly in arrears.

Avalon Family Office Fees:

Avalon charges 0.20% per year on Client's investment assets, charging quarterly in arrears with an annual minimum fee of \$450,000. Fees that Avalon receives on the Accounts Avalon manages for a Client including Avalon management or advisory fees for the Client's portion of Private Funds or Avalon Private Funds are credited against the Avalon Family Office Fee.

Subadvisory Services and Managed Account Programs Fees:

The total amount of fees paid by Clients receiving subadvisory services from Avalon through these programs varies but, where an asset-based fee is paid to the primary advisor, the total fee (including both the advisor's and Avalon's fee) will not be less than the advisory fee which that Client would have paid to Avalon for its advisory services absent the subadvisory relationship. In these cases, Avalon is generally paid a fee by the primary advisor in accordance with the fee schedules above but Avalon may offer a discount from such fee schedules in recognition of the primary advisor's assumption of certain administrative functions that would otherwise be provided by Avalon. These fees may be paid either in advance or arrears and, if an arrangement is terminated during a particular payment period, a *pro rata*

adjustment will be made to ensure that fees are paid only for the period in which assets were actually under Avalon's management. Additionally, in some cases, the fee paid to a primary advisor may qualify the Client for a reduced or waived commission rate for transactions executed through the primary advisor or an affiliate of the advisor (the "preferred broker"). In these circumstances, the Client will typically direct Avalon to execute transactions through the preferred broker, in some cases subject to Avalon's duty to seek best execution. In the latter circumstance, Avalon will consider the costs that would be associated with executing away from the preferred broker, in addition to the factors set forth in the section below titled "Brokerage Practices."

Solicitation and Client Servicing Arrangements:

Avalon may enter into an agreement with another registered investment advisor (the "other advisor") who Avalon believes offers investment management services and expertise which would be beneficial to an Avalon Client. In such case, Avalon and the other advisor enter into a written agreement (governed by the provisions of Rule 206(4)-3 under the Advisers Act) with respect to the solicitation activities of Avalon, which may include providing introductions of Clients to the other advisor and consulting with the advisor regarding potential introductions. In most cases, Avalon will continue to provide "Client Servicing." Client Servicing includes providing the Client with periodic reports, communicating with the Client regarding the other advisor's investment manager services, and providing such other assistance that serves to promote the continual mutual servicing of the Client. In consideration of the solicitation and servicing, the other advisor shares with Avalon a portion of the investment management and/or performance fees paid by the client to that manager. In each case, a disclosure statement is provided to the client by Avalon and the other manager that makes clear the fees and the relationship between the two advisors.

Special Fee Arrangements:

Avalon reserves the right, in its sole discretion, to negotiate and to charge different fees for certain Accounts based on the Client's particular needs or requirements as well as overall financial condition, goals, risk tolerance and other factors unique to the Client or for new or additional services not described herein. In particular, fees for certain foreign (non-U.S.) Clients may be higher due to increased administrative costs and requirements. The maximum fee which might be charged by Avalon is 2%.

Private Funds

As indicated above, Avalon may offer to certain of its Clients the investment services provided by other investment managers, generally either through: 1) a defined series of that manager's fund; or, 2) through a limited partnership in which Avalon is an affiliate of the General Partner; 3) through a separate account; or, 4) through direct participation in the Fund as arranged through AWM. Fees and expenses of those Private Funds are described to Investors, in detail, in each Private Fund's PPM. Private Fund fees may vary depending on the nature of the services provided and the investment strategy utilized but will generally include (1) *management fees*, based on a percentage of assets under management (usually 1.50% *per annum*); (2) *administrative fees*, also based on a percentage of assets under management (usually 0 to 0.10% *per annum*); and, (3) *incentive or performance compensation*, which may be an allocation of additional units of interest in the Private Fund, equal to a percentage of capital appreciation (usually 15% to 20% *per annum*). Additional sales compensation will be paid to AWM as a broker-dealer for placing Clients in specific Private Funds. Please see the Section titled "Other Financial Industry Affiliations and Activities" for more detailed information.

Fees are generally paid in arrears and on a monthly, quarterly or annual basis, depending upon the specific contractual arrangements with each Private Fund. Asset values are based on market prices (as determined by the Private Fund's custodian or independent pricing service) on the relevant valuation date (usually the close of market on the last business day of the month, quarter or year). Fees for a partial period are assessed *pro rata*. Fee structures may vary from Private Fund to Private Fund and not all Private Funds include each type of fee or compensation.

Avalon's Private Client contracts generally allow for termination without penalty upon 30 days written notice, or as otherwise stated in the contract.

Avalon Private Funds

As an Avalon client, each Avalon Private Fund pays a management fee (in each case, the "Management Fee") to Avalon or its designated affiliate which Avalon believes is at a level consistent with industry standards.

Avalon Carlyle PE Fund I, LP ("Avalon Carlyle") will pay the Management Fee quarterly in advance commencing on April 1, 2013 and continuing through March 31, 2019 as follows: (i) 1.00% of the Commitments made by Limited Partners holding Class A Interests; (ii) 0.75% of the Commitments made by Limited Partners holding Class B Interests; and (iii) 0.50% of the Commitments made by Limited Partners holding Class C Interests. Limited Partners holding Class D Interests will not be charged a Management Fee. All operating costs of Avalon Carlyle, other than legal, audit, tax preparation expenses and third party expenses directly related to the administration of Avalon Carlyle, as reasonably determined by the General Partner, and costs and expenses related to the investment activities of Avalon Carlyle, will be borne by the General Partner and are intended to be covered in part by the Management Fee. Avalon Carlyle will pay all costs and expenses incurred in connection with its organization and establishment and the costs incurred in connection with the initial offering of Interests of Avalon Carlyle ("Organizational Expenses"). Organizational Expenses of Avalon Carlyle will be amortized over a period up to 36 months from the date Avalon Carlyle commences operations; provided, that, if such amortization would result in a qualification to the Partnership's audit opinion, the General Partner may, in consultation with the Partnership's auditors, select an alternative manner of treating such expense. Please refer to Avalon Carlyle's documents for details concerning the partnership's payment of fees and expenses.

Avalon Global Real Assets Fund, LP ("AGRA") will pay the Management Fee quarterly in advance commencing on May 1, 2014 and continuing through April 30, 2020 as follows: (i) 1.00% of the Commitments made by Limited Partners holding Class A Interests; (ii) 0.75% of the Commitments made by Limited Partners holding Class B Interests; (iii) 0.50% of the Commitments made by Limited Partners holding Class C Interests; and (iv) 0.35% of the Commitments made by Limited Partners holding Class D Interests. Limited Partners holding Class E Interests will not be charged a Management Fee. All operating costs of AGRA, other than legal, audit, tax preparation expenses and third party expenses directly related to the administration of AGRA, as reasonably determined by the General Partner, and costs and expenses related to the investment activities of AGRA, will be borne by the General Partner and are intended to be covered in part by the Management Fee. AGRA will pay all costs and expenses incurred in connection with its organization and establishment and the costs incurred in connection with the initial offering of Interests of AGRA ("Organizational Expenses"). Organizational Expenses of AGRA will be amortized over a period up to 36 months from the date AGRA commences operations; provided, that, if such amortization would result in a qualification to the Partnership's audit opinion, the General Partner may, in consultation with

the Partnership's auditors, select an alternative manner of treating such expense. Please refer to AGRA's documents for details concerning the partnership's payment of fees and expenses.

The Management Fee paid by *Avalon High Income Municipal Fund, L.P.* ("High Income Municipal Fund") will accrue monthly in an amount equal to 0.0625% of the total market value of the High Income Municipal Fund's net assets as of the end of each month (i.e., 0.75% per annum) before giving effect to any withdrawals, and will be paid quarterly in arrears on or before five days after the end of such quarter. At any time, the High Income Municipal Fund may reimburse Avalon or an affiliated entity for the organizational expenses advanced. The High Income Municipal Fund will pay all costs incurred in connection with the continuing offering of LP Interests. All operating costs of the High Income Municipal Fund, other than legal, audit, tax preparation expenses and third party expenses directly related to the administration of the High Income Municipal Fund, as reasonably determined by the General Partner, and costs and expenses related to the investment activities of the High Income Municipal Fund, will be borne by the General Partner and are intended to be covered in part by the Management Fee. The High Income Municipal Fund will pay for all of its extraordinary expenses. Please refer to the High Income Municipal Fund documents for details concerning the partnership's payment of fees and expenses.

Valuation

Avalon is compensated based on the market value of Accounts, and the High Income Municipal Fund. (A related entity may also be compensated based on performance for some Private Funds not managed by Avalon.) As a result, Avalon (or a related or affiliated entity) may benefit from an increase in securities valuations over market value (or fair value where market values are unreliable). Additionally, where an Investor purchases or redeems interests in a Private Fund, or the High Income Municipal Fund at a net asset value ("NAV") that is impacted by a discrepancy in valuation, such Investor may receive a greater or lesser interest in (or increased or decreased redemption proceeds from) such Private Fund than would have been the case absent the discrepancy. Similarly, existing and continuing investors may suffer dilution or enjoy accretion as a result of such purchases or redemptions.

As a general matter, values for listed investments will represent the last reported sales price, on the relevant trading market, on the day of valuation (if no sales occurred on such day, the valuation will typically be the "bid" price for long holdings and the "ask" price for short holdings). Avalon generally invests in assets which have readily ascertainable market values or for which independent pricing services are capable of providing reliable valuations. In most cases, valuations determined from published market closing prices and/or provided by custodians or independent pricing services are used in calculating advisory fees and for reporting purposes. However, in rare cases, Avalon may be unable to obtain pricing from these sources.

Where such pricing sources are unavailable, Avalon seeks to ensure that the relevant asset is valued using methods determined by Avalon to elicit "fair value" for the investment, in order to mitigate the conflicts and potential for material pricing discrepancies with respect to Account assets and to ensure that such assets are valued in good faith and as accurately as is reasonably practicable. In the absence of reliable valuations from market sources, a custodian or an independent pricing service (e.g., where securities are illiquid, thinly traded or otherwise difficult to value due to market disruptions, loss of pricing coverage or market making activities by broker-dealers or pricing services, distressed asset sales, extreme market volatility or other factors that Avalon determines may diminish the accuracy, timeliness or reliability of pricing

information), Avalon will generally attempt, in the first instance, to ascertain a price by obtaining quotes from one or more brokers or dealers.

While this method (and others that may be employed by Avalon in the event that Avalon is unable to obtain sufficient, reliable broker quotes) is intended to yield a good faith approximation of the value of an asset, no fair valuation method can, ex ante, be guaranteed to have reflected the actual or empirical value of any asset, as might be determined with the benefit of hindsight (particularly in periods of market distress). Thus, the fair value assigned to an asset may not match the next available and reliable market price or, in retrospect, have been the price at which that asset could have been sold during the period in which the particular fair values were being used in determining an Account's value for performance or fee calculation. Avalon's goal when assigning "fair value" is to determine the price that a Client might reasonably expect to receive from the current sale of that asset in an arm's length transaction.

Positions in the High Income Municipal Fund that are illiquid and do not actively trade will be marked to market by the General Partner. If this is not feasible, the investment will be carried at fair value, as reasonably determined by the General Partner. Positions in Avalon Carlyle will be valued by each of the underlying fund investment managers. Each Investor's capital account in Avalon High Income Municipal Fund, Avalon Carlyle and AGRA will be calculated by the administrator.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Advisers Act Section 205 generally prohibits a registered investment adviser from receiving compensation that is based on a share of capital gains on or appreciation of funds of an advisory client (among other things). Advisers Act Rule 205-3 provides an exemption from this prohibition for advisory agreements with "qualified clients." Under the current Rule 205-3, a "qualified client" includes a client that, immediately after entering into the contract, has at least \$1 million under the management of the adviser or a net worth of more than \$2.1 million, excluding the value of a client's primary residence and certain property-related debts from the net worth calculation.

Avalon generally does not charge performance based fees on its Client Accounts but may charge such fees on Private Funds and Avalon Private Funds as outlined in each fund's documents. However, on an exception basis, a performance based fee may be negotiated with terms dependent upon the particular investment requirements of the Client. The Firm may recommend some Clients invest in Private Funds and Avalon Private Funds which may charge performance based fees.

Because Avalon recommends accounts which pay performance-based fees and those that do not, the Firm may have an incentive to favor its performance paying accounts over those that do not. This is mitigated through Avalon's policy and practice of treating all Client Accounts fairly and equitably and through attention to each Account and Avalon Private Fund's investment objective.

TYPES OF CLIENTS

Avalon provides investment advisory services to:

- Individuals
- High net worth individuals, trusts and estates

- Pooled investment vehicles (other than investment companies)
- Pension and profit sharing plans
- Charitable organizations
- Corporations and other businesses
- Other investment advisors
- Insurance companies

Avalon prefers to establish relationships of at least \$10,000,000 in order to act as investment manager for a Client. This preference is in addition to any minimum account sizes described above. Additionally, the Private Funds may require a minimum initial investment. The minimum initial investment requirement for High Income Municipal Fund is \$250,000. Each of Avalon Carlyle and AGRA required a minimum aggregate commitment of \$500,000. Investors must meet the requirements for "accredited investors" under the 1933 Act and in some cases "qualified clients" under the Advisers Act and will also be required to be "qualified purchasers" under the 1940 Act and/or "qualified eligible persons" under regulations of the Commodity Futures Trading Commission. Avalon may, in its sole discretion, waive any such minimums. Lower minimums may apply where Avalon's services are provided through a subadvisory relationship or managed account program.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

In managing Client Accounts and providing recommendations to non-discretionary Clients, Avalon uses various investment strategies and methods of analysis, as described below. This section also contains a discussion of the primary risks associated with these investment strategies. However, it is not possible to identify all of the risks associated with investing, and the particular risks applicable to an Account will depend on the nature of the Account, its investment strategy or strategies and the types of securities held by the Account.

While Avalon seeks to manage Accounts so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Clients and Investors should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses, including through diversification.

Clients and Investors should be aware that while Avalon does not limit its advice to particular types of investments, mandates may be limited to certain types of securities (e.g., equity securities) and may not be diversified. The Accounts are generally not intended to provide a complete investment program and Avalon expects that the assets it manages do not represent all of the Client's or Investor's assets. Clients and Investors are responsible for appropriately diversifying their assets to guard against the risk of loss.

Methods of Analysis

Avalon uses a combination of the following types of analysis in evaluating investments for client accounts:

- Fundamental -- Analysis of financial attributes of a company, such as revenue growth, earnings growth, industry dynamics and product or service evaluation
- Technical -- Price, volume and chart analysis which assumes past performance may be a predictor of future performance

- Valuation – Price/earnings ratios, price/book ratios, debt-to-equity, debt coverage, and value relative to industry peers

Avalon uses the following sources of information in its analysis:

- Financial newspapers and magazines
- Research materials prepared by others
- Corporate rating services
- Annual reports, prospectuses, filings with the Securities and Exchange Commission
- Company press releases

The investment strategies Avalon uses to implement investment advice include the following :

- Long-term purchases (securities held at least a year)
- Short-term purchases (securities sold within a year)
- Trading (securities sold within 30 days)
- Short sales
- Margin transactions
- Option writing, including covered options, uncovered options or spreading strategies

Investment Strategies

Avalon employs a fundamental, long-term approach in evaluating securities and seeks to achieve a return reflective of the underlying asset class for each account while aiming to maintain lower volatility, when possible. Avalon will raise cash reserves during periods of perceived higher market risk, but will generally seek to maintain fully invested accounts over a typical market cycle. Securities selected are generally expected to be held for long-term capital gains, with the aim of providing higher after-tax returns.

Avalon may suggest that Clients invest in private funds, some of which are managed by Avalon. Avalon may also utilize hedging, options or derivatives and leverage to achieve investment objectives and may, for temporary defensive purposes, hold a significant portion of an Account's assets in cash or cash equivalents should circumstances warrant.

Investment strategies of each of the discretionary Accounts follow:

- **Avalon Cash Account** will be invested in short term securities with a maximum maturity of 18 months. From time to time, at the firm's discretion, a significant portion of the funds will be invested in par-reset securities with, at most, monthly liquidity. All securities will be investment grade or the short-term equivalent of investment grade at the time of purchase. In addition, the firm may utilize a combination of short term funds limited to a two-year duration target or less. Funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Enhanced Liquidity Short Duration Account** will be invested in tax-exempt or taxable bonds, as market conditions warrant. The Account will invest at least 80% of its value in high grade securities and at all times will invest 100% of its value in investment grade securities. An investment is considered high grade if, at the time of purchase, it is rated at least AA- or its equivalent investment grade by at least one nationally recognized statistical rating organization (NRSRO) and is considered

investment grade if, at the time of purchase, it is rated at least BBB- or its equivalent investment grade by at least one nationally recognized statistical rating organization (NRSRO). The account will invest 80% of its value in securities with a maximum maturity of 18 months and the maximum maturity of any security in the account will not exceed 5 years.

- **Avalon Short Duration Fixed Income Account** will be invested in tax-exempt or taxable bonds, as market conditions warrant. The Account will invest 100% of its value in investment grade securities. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- or its equivalent investment grade by at least one nationally recognized statistical rating organization (NRSRO) or, if unrated, reasonably believed by the manager to be of equivalent credit quality. The account will invest 80% of its value in securities with a maximum maturity of 3 years and the maximum maturity of any security in the account will not exceed 7 years.
- **Avalon High Grade Taxable Fixed Income Account** will be invested in high grade fixed income securities, whose interest payments are subject to United States federal income tax. The Account will invest in high grade securities at time of purchase and will generally maintain an average life between three years and fifteen years. An investment is considered high grade if, at the time of purchase, it is rated at least AA- or its equivalent by at least one nationally recognized statistical rating organization (NRSRO). Notwithstanding the foregoing, subject to certain minimums and upon the discretion of the Avalon investment team, the Account may also be invested in one or more investment grade diversified mutual funds and/or exchange traded funds. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon High Grade Tax Exempt Fixed Income Account** will be invested in high grade municipal bonds, whose interest payments are free from United States federal income tax. The Account will invest in high grade securities at time of purchase and will generally maintain an average life between three years and fifteen years. An investment is considered high grade if, at the time of purchase, it is rated at least AA- or its equivalent by at least one nationally recognized statistical rating organization (NRSRO). Notwithstanding the foregoing, subject to certain minimums and upon the discretion of the Avalon investment team, the Account may also be invested in one or more investment grade diversified mutual funds and/or exchange traded funds. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Taxable Fixed Income Account** will be invested in investment grade fixed income securities, whose interest payments are subject to United States federal income tax. Investment grade municipal bonds, whose interest payments are free from United States federal income tax may be held, but are generally excluded as long term holdings. The Account will invest in investment grade securities at time of purchase and will generally maintain an average life between three years and fifteen years. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- or its equivalent by at least one nationally recognized statistical rating organization (NRSRO) or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Notwithstanding the foregoing, subject to certain minimums and upon the discretion of the Avalon investment team, the Account may also be invested in one or more investment grade diversified mutual funds and/or exchange traded funds. Index funds and exchange traded funds inherently contain additional

expenses. These additional expenses are not deducted from the Avalon management fees charged.

- **Avalon Tax Exempt Fixed Income Account** will be invested in investment grade municipal bonds, whose interest payments are free from United States federal income tax. The Account will invest in investment grade securities and will generally maintain an average life between three years and fifteen years. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- or its equivalent by at least one nationally recognized statistical rating organization (NRSRO) or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Notwithstanding the foregoing, subject to certain minimums and upon the discretion of the Avalon investment team, the Account may also be invested in one or more investment grade diversified mutual funds and/or exchange traded funds. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon High Income Municipal Account** will invest primarily in tax-exempt bonds. The Account's investment objective is to provide income free from federal taxation and potential taxable capital appreciation. The Account will invest in debt securities rated below investment grade or non-rated debt securities whose underlying fundamentals are deemed by the portfolio managers to be creditworthy. Upon the discretion of the portfolio managers, the Account may also be invested in one or more diversified funds, the diversified nature of which may result in the Account holding non-rated securities, below investment grade rated or investment grade rated securities. Funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged. When deemed appropriate, the portfolio managers may use leverage and/or derivatives to offset or establish positions in the Account, but in no event shall leverage exceed 10%.
- **Avalon Total Market Fixed Income Account** will be invested in USD denominated non-equity securities, commonly referred to as "fixed income." The Account will generally invest at least 60% of its value in investment grade securities, although market conditions may warrant lower levels of investment grade exposure from time to time, and maintain an average life between three years and twenty years. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- or its equivalent investment grade by at least one nationally recognized statistical rating organization (NRSRO) or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Upon the discretion of the manager, the account may also be invested in one or more diversified mutual funds and/or exchange traded funds, which contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Custom Fixed Income Account** will be invested within client mandated guidelines which draw on the capabilities of the Avalon Fixed Income Investment Team and may share characteristics with one or more of the aforementioned strategies. In addition to the strategies currently being managed, market conditions may warrant the purchase of securities that are opportunistic in nature and may or may not exist in any Avalon managed strategies. In all cases of a custom account, the Fixed Income Team requires bespoke investment guidelines, updated on an annual basis that will govern the precise characteristics of the account. Failure to provide investment guidelines or to update guidelines on the anniversary date of account opening will result in a buy/sell restriction being placed on the account until such guidelines are received and/or

updated. Appropriate guidelines are to be determined by the Fixed Income Investment team and the team may reject guidelines that do not meet the standard required for appropriate management of the individual client account. Upon the discretion of the Avalon investment team, the account may also be invested in one or more investment grade diversified index funds and/or exchange traded funds. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.

- **Avalon Core Equity Account** will be managed in accordance with a master equity portfolio whose investment objective is long term capital appreciation. This discretion does not include the use of derivatives or margin. From time to time we may invest in a non-U.S. security, but in those instances those securities will generally (but not always) be limited to international securities that trade in the United States through the use of American Depositary Receipts.
- **U.S. Value Equity Account** will be managed in accordance with a master equity portfolio. The value portfolio seeks to hold 15 to 20 securities. The manager uses a rigorous and disciplined process to identify and invest in undervalued U.S. securities that are believed to maximize downside protection and upside appreciation. Emphasis is placed on relative valuation, capital efficiency, balance sheet health, earnings quality, and margins. The underlying companies are domiciled in the U.S.
- **Avalon Equity Income Account** will be managed in accordance with a master equity income portfolio whose investment objective is to generate current yield and long term capital appreciation. This discretion does not include the use of derivatives or margin. The income component can come from common stock dividends (including REITS), MLP (Master Limited Partnership) distributions, and ETF dividends. From time to time we may invest in a non-U.S. security, but in those instances those securities will generally (but not always) be limited to international securities that trade in the United States through the use of American Depositary Receipts.
- **Avalon Equity Income (No MLPs) Account** will be managed in accordance with a master equity income portfolio whose investment objective is to generate current yield and long term capital appreciation. This discretion does not include the use of derivatives or margin. The income component can come from common stock dividends (including REITS) and ETF dividends. From time to time we may invest in a non-U.S. security, but in those instances those securities will generally (but not always) be limited to international securities that trade in the United States through the use of American Depositary Receipts.
- **International Value Equity Account** will be managed in accordance with a master equity portfolio. The international value portfolio seeks to hold 25 securities. The manager uses a rigorous and disciplined process to identify and invest in undervalued securities that are believed to maximize downside protection and upside appreciation. Emphasis is placed on relative valuation, capital efficiency, balance sheet health, earnings quality, and margins. The underlying companies are domiciled outside the U.S.
- **Avalon International Equity Account** will be focused on long-term capital appreciation, investing in international equities, including those in emerging markets. This discretion does not include the use of derivative instruments or currency hedging, but will include the use of American Depositary Receipts, Global Depositary Receipts,

equities listed on foreign exchanges, and Exchange Traded Funds. Exchange traded funds inherently contain additional expenses. The portfolio position sizes will generally range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights will generally not exceed two times the index sector weights or 25% of the portfolio and the minimum market capitalization is a function of liquidity. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.

- **Avalon International Equity Income Account** will be focused on both income and long-term capital appreciation, investing in international equities, including those in emerging markets. The Account will be constructed to generate a diversified and growing stream of income. This discretion does not include the use of derivative instruments or currency hedging, but can include writing covered calls if allowed by the client. This discretion will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges, and Exchange Traded Funds. Exchange traded funds inherently contain additional expenses. A minimum of 75% of the portfolio will be invested in common stock, while the remainder can be invested in convertible bonds, preferred stock or investment grade corporate bonds. The portfolio position sizes will generally range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights will generally not exceed two times the index sector weights or 25% of the portfolio. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Global Equity Account** will be focused on long-term capital appreciation, investing in both U.S. and international equities, including those in emerging markets. This discretion does not include the use of derivative instruments or currency hedging, but will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges, and Exchange Traded Funds. The portfolio position sizes will generally range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights will generally not exceed two times the index sector weights or 25% of the portfolio and the minimum market capitalization is a function of liquidity. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Global Equity Income Account** is a long-only Account focused on both income and long-term capital appreciation, investing in both U.S. and international equities, including those in emerging markets. The Account will be constructed to generate a diversified and growing stream of income. This discretion does not include the use of derivative instruments or currency hedging, but can include writing covered calls if allowed by the client. This discretion will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges, and Exchange Traded Funds. A minimum of 75% of the portfolio will be invested in common stock, while the remainder can be invested in convertible bonds, preferred stock or investment grade corporate bonds. The portfolio position sizes will generally range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights will generally not exceed two times the index sector weights or 25% of the portfolio. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.

- **Avalon SMID Cap Equity Account** will be managed in accordance with a master equity portfolio whose investment objective is long term capital appreciation through investment in small and mid-capitalization companies. This discretion does not include the use of derivatives or margin. From time to time we may invest in a non-U.S. security, but in those instances those securities will generally (but not always) be limited to international securities that trade in the United States through the use of American Depositary Receipts.
- **Avalon Global Energy Account** will be managed in accordance with a master equity portfolio whose investment objective is long term capital appreciation. The portfolio invests primarily in the stocks of companies who operate in the energy and natural resources sectors of the global economy. The portfolio will primarily invest in the common stock of U.S. and non-U.S. companies, and may include Master Limited Partnerships (MLPs) and exchange traded funds (ETFs). Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Global Energy (No MLPs) Account** will be managed in accordance with a master equity portfolio whose investment objective is long term capital appreciation. The portfolio invests primarily in the stocks of companies who operate in the energy and natural resources sectors of the global economy. The portfolio will primarily invest in the common stock of U.S. and non-U.S. companies, and may include exchange traded funds (ETFs). Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon MLP Account** will be managed as a long-only portfolio focused on the production, transportation, refining and marketing of North American natural resources utilizing exposure to the securities of Master Limited Partnerships (MLPs). The primary objective of the account is total return with a heavy emphasis on income generation. The account is structured to invest primarily in the securities of energy based MLPs, but does maintain the flexibility to invest in other energy-related securities at the manager's discretion. Partnerships that produce any income and/or gains derived from the exploration, development, mining or production, processing, refining, or transportation (including pipelines transporting gas, oil, or products thereof) of any mineral or natural resource may qualify under Section 7704 (d)(1)(e) of the Internal Revenue Code as an MLP.
- **Avalon Balanced Portfolio** blends the Client's Avalon Equity Account or Equity Income Account and the Client's Municipal Bond or other Fixed Income Account using Client's selected equity band. The Client establishes the equity allocation range (using a 30% band) at the account inception. Once established, Avalon assumes the responsibility for allocating within that range. Please note that the Avalon SMID Cap Equity Account and the Avalon High Income Municipal Account offerings are *excluded* from the Balanced Portfolio.
- **Avalon Diversified ETF Account** will be managed in accordance with a master portfolio whose investment objective is long term capital appreciation. The portfolio tactically allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the investment environment, and the relative attractiveness of various asset classes in its universe. The portfolio

invests primarily in exchange traded funds (ETFs) in order to achieve its objectives. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.

- **Total Return Account** will be managed in accordance with a master equity portfolio. The Total Return Portfolios contain ten securities or fewer and are comprised of ordinary or derivative securities found within the firm's domestic and international equity portfolios. The underlying companies are domiciled inside and outside the U.S.

Risk of Loss

Issuer Risk – A portfolio's performance depends on the performance of individual securities in which the portfolio invests. Changes to the financial condition or credit rating of an issuer of those securities may cause the value of the securities to decline.

Interest Rate and Credit Risk – The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. The principal on mortgage-backed or asset-backed securities may normally be prepaid at any time, which will reduce the yield and market value of these securities. Obligations of U.S. Government agencies and authorities are supported by varying degrees of credit but generally are not backed by the full faith and credit of the U.S. Government.

Municipal Security Risk – Municipal securities are subject to interest rate and credit risks as well as default and valuation risks. There may be less information available on the financial condition of issuers of municipal securities than for public corporations. The market for municipal bonds may be less liquid than for taxable bonds. A portion of the income may be taxable. Some investors may be subject to Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable.

Equity Securities Risk – Equity securities are subject to changes in value and their values may be more volatile than other asset classes. The price of equity securities fluctuate based on changes in a company's financial condition and overall market and economic conditions.

Derivatives Risk – Investments in derivatives, such as futures, options, swaps or tender-option bonds, to hedge a portfolio's investments or to seek to enhance returns, entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Leverage may involve the use of various financial instruments or borrowed capital in an attempt to increase the return of an investment. The use of leverage involves risk and may entail a loss greater than the amount originally invested.

In addition to the risks identified above, Investors in a Private Fund, which is a speculative investment and involves a high degree of risk, may be subject to additional risks, including the lack of liquidity for interests of the Private Fund. Please refer to the applicable PPM for a discussion of such additional risks.

Avalon Private Funds:

Avalon Carlyle Private Equity Fund I, LP ("Avalon Carlyle")

Through investing all or substantially all of its assets in four Carlyle Funds, Avalon Carlyle's investment objective is to provide investors with attractive exposure to private equity

investment opportunities across multiple geographies, including the U.S. and Asia, as well as to seek to take advantage of specific market dislocations across the globe, including Europe. Avalon Private Clients and non-clients were solicited to invest in this Avalon Private Fund. Risks to investing in this fund include risks inherent in private equity investments and the Carlyle Funds' expected use of leverage. Additional structural risks include, but are not limited to, the higher fees and expenses incurred by a fund-of-funds and the limited liquidity of investments in private investment vehicles. Please refer to the Avalon Carlyle documents for detailed discussion regarding its risks beyond those listed previously.

Avalon Global Real Assets Fund, LP ("AGRA")

AGRA's investment objective is to provide investors with attractive returns through investing all, or substantially all, of its assets in Targeted Funds sponsored by Carlyle and third-party managers. The Targeted Funds, in turn, seek to invest in real asset related investments across multiple geographies, and seek to take advantage of specific market dislocations across the globe. The Targeted Funds are expected to invest in real asset opportunities that benefit from inflation and that may provide diversification to traditional asset classes through reduced correlation and volatility. Avalon Private Clients and non-clients were solicited to invest in this Avalon Private Fund. Risks to investing in this fund include risks inherent in private equity investments and the Targeted Funds' expected use of leverage. Additional structural risks include, but are not limited to, the higher fees and expenses incurred by a fund-of-funds and the limited liquidity of investments in private investment vehicles. Please refer to the AGRA documents for detailed discussion regarding its risks beyond those listed previously.

Avalon High Income Municipal Fund, LP ("High Income Municipal Fund")

Under normal circumstances, and after an initial investment period of up to 180 days following the commencement of the High Income Municipal Fund's operations, the High Income Municipal Fund will invest at least 80% of its net assets in municipal debt securities that (i) pay interest that is excluded from gross income for federal income tax purposes, and (ii) do not produce income that will be considered to be an item of preference for purposes of the alternative minimum tax by investing in revenue and general obligation bonds. The High Income Municipal Fund may invest up to 10% of its net assets in defaulted municipal debt securities. At least 40% of the High Income Municipal Fund's net assets will be invested in municipal debt securities that are rated BBB/Baa or lower. The High Income Municipal Fund may invest up to 20% of its net assets in securities that produce income that is subject to federal income tax. The High Income Municipal Fund may invest up to 25% of its net assets in municipal debt securities issued by entities deemed to have similar characteristics. Please refer to the High Income Municipal Fund documents for detailed discussion regarding its risks beyond those listed above under Municipal Security Risk.

DISCIPLINARY INFORMATION

Neither Avalon nor any of Avalon's supervised persons have been involved in any legal or disciplinary events (i.e., criminal or civil action in a domestic, foreign or military court, administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency or self-regulatory organization) that are material to evaluating Avalon's advisory business or the integrity of Avalon management.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Avalon has a number of related entities:

Avalon Wealth Management LLC ("AWM") is an entity formed to engage in private placements of investment funds. AWM is a member of FINRA as a broker-dealer, which allows AWM to receive sales commissions on assets placed in Private Funds. AWM is also registered as a broker-dealer with the SEC. This compensation creates a conflict of interest with Avalon Clients, as the Firm may recommend to Clients they invest in a Private Fund for which AWM (and its personnel who may be making the recommendation) will receive compensation. This conflict is mitigated through disclosure to Clients and through the fact that Avalon will not include these assets on which AWM has been paid a sales compensation in the base for Avalon's management fee calculation.

Avalon Carlyle Private Equity Fund I GP, LLC is the general partner of Avalon Carlyle PE Fund I, L.P. Recommending Clients invest in Avalon Carlyle creates a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's receipt of the investment management fee and later receipt of distributions from Avalon Carlyle. This conflict is mitigated through a continual disciplined approach to assessing the Client's investment objectives and risk tolerance, and ensuring the Client has reviewed Avalon Carlyle documents before investing.

Avalon Global Real Assets Fund GP, LLC is the general partner of Avalon Global Real Assets Fund, LP. Recommending Clients invest in AGRA creates a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's receipt of the investment management fee. This conflict is mitigated through a continual disciplined approach to assessing the Client's investment objectives and risk tolerance, and ensuring the Client has reviewed the AGRA documents before investing.

Avalon High Income Municipal GP, LLC is the general partner of Avalon High Income Municipal Fund, LP. Recommending Clients invest in the High Income Municipal Fund creates a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's receipt of the investment management fee from the High Income Municipal Fund. This conflict is mitigated through a continual disciplined approach to assessing the Client's investment objectives and risk tolerance, and ensuring the Client has reviewed the High Income Municipal Fund documents before investing.

Avalon Wallace Investment Management, LLC is the general partner of a Private Fund, Avalon Wallace Investment Fund, LP, managed by an advisor unaffiliated with Avalon, Wallace Capital Management, LP. Avalon may recommend to Clients they invest in this Private Fund, creating a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's ownership share of the general partner, which receives a share of the management and performance fees from the Private Fund. This conflict is mitigated through a disciplined approach to assessing the Client's investment objectives and risk tolerance and ensuring that the Client has reviewed and understands the Private Fund documents.

Avalon may recommend for certain other Clients an investment in a separately managed account for which Wallace Capital Management, LP ("Wallace") serves as investment manager and for which Wallace shares its fees with Avalon under a solicitation and client servicing arrangement. This conflict is fully disclosed in the required Solicitor's Written Disclosure Document and is mitigated through a disciplined approach to assessing the Client's investment objectives and risk tolerance and ensuring that the Client has received the solicitation documents and has been apprised of the financial arrangements between Wallace and Avalon.

Avalon has entered into a Joint Venture Agreement ("JV Agreement") with BlackGold Capital Management LP in which Clients of Avalon and BlackGold may invest in the Avalon-BlackGold

Share Class of the BlackGold Partnership or may invest in separately managed accounts with BlackGold. The JV Agreement also permits clients of an unrelated broker-dealer to invest in the BlackGold Investment Opportunity Fund, LP as an exception to the exclusivity provisions of the JV agreement. Although AWM will receive from BlackGold a portion of the management and incentive fees paid by clients of the unrelated broker-dealer, no fiduciary duty is owed by Avalon to their clients.

Avalon may recommend to Clients that they invest in the Avalon-BlackGold Share Class, creating a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's joint venture agreement with BlackGold, in which Avalon receives a share of the management and performance fees from the Private Fund via a placement agreement with AWM. This conflict is mitigated through a disciplined approach to assessing the Client's investment objectives and risk tolerance and ensuring that the Client has reviewed and understands the Private Fund documents.

Avalon may recommend for certain other Clients an investment in a BlackGold separately managed account, for which BlackGold shares its fees with Avalon under a solicitation and client servicing arrangement. This conflict is fully disclosed in the required Solicitor's Written Disclosure Document and is mitigated through a disciplined approach to assessing the Client's investment objectives and risk tolerance and ensuring that the Client has received the solicitation documents and has been apprised of the financial arrangements between BlackGold and Avalon.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Avalon may act as investment manager to numerous Client Accounts and may give advice and take action with respect to Accounts they manage or for their own Accounts or the Account of their access persons that may differ from action taken by Avalon on behalf of other Accounts. Avalon is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that Avalon or its access persons may buy or sell for its or their own accounts or for any other Account Avalon manages. Additionally, Avalon's personnel may invest or otherwise have an interest, either directly or indirectly, in private funds which, in turn, may invest in securities held in other managed Accounts. Avalon is not obligated to refrain from investing in securities held in the Accounts it manages except to the extent that such investments violate Avalon's Code of Ethics (the "Code"), adopted pursuant to Rule 204A-1 under the Advisers Act.

Avalon's buy or sell programs may extend over a period of months and securities are often held for several years. From time to time, officers and employees of Avalon may have interests in securities owned by or recommended to Avalon's Clients. As these situations may represent a potential conflict of interest, Avalon has implemented procedures relating to personal securities transactions and insider trading that are designed to identify potential conflicts of interest and prevent or mitigate actual conflicts of interest. These policies and procedures, including Avalon's Code, are intended to avoid conflicts of interest with Clients, and resolve such conflicts appropriately if they do occur. Any supervised person of Avalon who fails to observe Avalon's Code and related policies risks serious sanctions, including dismissal and personal liability. A copy of the Code is available to any Client or Investor, or prospective Client or Investor, upon request.

Misuse of Nonpublic Information:

Avalon and its related persons may, from time to time, come into possession of material nonpublic and other confidential information which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Avalon may be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, regardless of whether such other person is an advisory Client. Accordingly, should Avalon come into possession of material nonpublic or other confidential information with respect to any company, it may be prohibited from communicating such information to, or using such information for the benefit of, its Clients, and have no obligation or responsibility to disclose such information to, nor responsibility to use such information for the benefit of, its Clients or Avalon personnel when following policies and procedures designed to comply with law.

Avalon has adopted a "Policy Statement on Insider Trading" in accordance with Advisers Act Section 204A which establishes procedures to prevent the misuse of material nonpublic information by Avalon's supervised persons. Among other things, all personnel must read, sign and adhere to Avalon's policy on insider trading which reflects current securities law, including, but not limited to, the Insider Trading and Securities Fraud Enforcement Act of 1988.

Personal Securities Trading:

Avalon or individuals associated with the Firm are restricted from the purchase and sale for their own Accounts of any covered security on the same business day as a transaction in any such security is effected for a Client Account unless all of the transactions contemplated for Avalon Clients in that security have been completed prior to such transactions. Access persons also may not engage in a personal transaction in a security for which any order for a Client is pending until such order is executed or withdrawn. Notwithstanding the foregoing and subject to the Code, Avalon's trading policies allow access persons to trade simultaneously with trades being placed for Clients when their funds are being managed by Avalon in a similar manner to Avalon's Clients. All access persons are required to notify the Chief Compliance Officer ("CCO") or her designee in order to pre-clear personal securities transactions in initial public offerings ("IPOs") and limited offerings.

Employees are required to submit quarterly reports of their personal transactions within 30 days of the end of each calendar quarter, which may consist of monthly brokerage statements for all Accounts in which they have a beneficial interest, to the CCO or her designee. Alternately, access persons may direct their brokers to send copies of all brokerage confirmations relating to all personal securities transactions in which they have a beneficial ownership interest for reporting purposes. Employees also must report all securities holdings to the CCO or her designee annually if statements are not provided. These are reviewed by the CCO to ensure compliance with the Firm's policies.

Investments in Private Funds:

From time to time and as appropriate, Avalon may offer its Clients the opportunity to invest in private funds managed by unaffiliated investment advisors, but Avalon will not make such investments on a discretionary basis. Avalon may also offer appropriate Clients the opportunity to invest in Avalon Private Funds, but Avalon will also not make such investments on a discretionary basis. As these may not be appropriate investments for all Clients, not all Clients will be offered the opportunity to invest and not all Clients who are offered that opportunity choose to invest.

Avalon Clients who invest in certain Private Funds managed by unaffiliated investment advisors with whom Avalon has entered into appropriate arrangements may be charged a Client Advisory Fee, as described above, or may be offered the opportunity to participate in a discounted class of interests in the relevant Private Fund. Avalon Clients who invest in Avalon Private Funds will not be charged a Client Advisory Fee on those assets. Further information about any Private Fund which Avalon may suggest to a Client is available in the Private Fund's PPM which will be provided to Avalon and the relevant Client prior to investment. Avalon and/or its personnel may also have interests in these or other Private Funds.

BROKERAGE PRACTICES

Selection of Custodians

Avalon may recommend one or more firms to serve as custodian ("Custodian") to hold the funds and securities of a Private Client Account. The identity of and relevant information about the Custodian for each Private Client Account is provided to the Private Client. The Custodian may also serve as the prime broker and may execute transactions on behalf of the Account, consistent with best execution. Avalon also may choose which broker effects a particular transaction and, on occasion, the amount of commission the Private Fund pays for such trade. Avalon may "trade away" for specific trades, executing trades through brokers other than the Custodian in order to gain access to greater inventory or better price or execution. Avalon may recommend Custodians that it believes will provide specific services to the Account, allowing the Account to operate effectively and efficiently by, for example, providing Avalon with electronic access to Account information and trade confirmations, bulk mailing of statements to Investors or Clients, provision of internet Account access to Investors or Clients, and access to specialized customer service personnel.

Selection of Brokers

Avalon places orders for the purchase or sale of securities with the primary objective of obtaining prompt execution of orders at the most favorable price and execution readily obtainable from responsible broker-dealers at competitive commission rates. Avalon insists on a high standard of quality regarding execution services and deals only with brokers that can meet that standard. Avalon may also place value on brokers and dealers who are able to provide useful brokerage and research assistance.

Avalon's objective in selecting brokers and dealers and in effecting portfolio transactions is to seek to obtain the best combination of price and execution with respect to its Accounts' portfolio transactions. The best net results, giving effect to brokerage commissions (which may not be the lowest available but which ordinarily will not be higher than the generally prevailing competitive rate for similar types of trades), spreads and other costs, is normally an important factor in this decision, but a number of other judgmental factors are considered as they are deemed relevant. In applying these factors, Avalon recognizes that different broker-dealers may have different execution capabilities with respect to different types of securities and transactions. The factors include, but are not limited to:

- Avalon's knowledge of negotiated commission rates and spreads currently available;
- the nature of the security being traded;
- the size and type of the transaction;

- the nature and character of the markets for the security to be purchased or sold;
- the desired timing of the trade and speed of execution;
- the activity existing and expected in the market for the particular security;
- the broker-dealer's access to primary markets and quotation sources;
- the ability to effect transactions at all where a large block is involved or where liquidity is limited;
- confidentiality;
- the execution, clearance and settlement capabilities as well as the reputation and perceived soundness of the broker-dealer selected and others which are considered;
- Avalon's knowledge of actual or apparent operational problems of any broker-dealer;
- the broker-dealer's execution services rendered on a continuing basis and in other transactions;
- the broker-dealer's reliability in executing trades, keeping records and accounting for and correcting its trade errors;
- the broker-dealer's ability to accommodate Avalon's needs with respect to one or more trades, including willingness and ability to maintain quality execution in unusual or volatile market conditions and, if necessary, to commit capital by taking positions in order to complete trades;
- the availability of the broker to stand ready to execute possible difficult transactions in the future;
- the quality of the communication links between Avalon's trading desk and the broker-dealer's;
- the quality of brokerage and research services provided by the broker-dealer; and,
- the reasonableness of spreads or commissions.

When buying or selling securities in dealer markets, Avalon may, subject to best execution, deal directly with market makers either on a commission basis or on a "net" basis, without paying the market maker any commission, commission equivalent or markup/markdown other than the "spread." Net trades mean that the market maker profits from the "spread," that is, the difference between the price paid (or received) by Avalon and the price received (or paid) by the market maker in trades with other broker-dealers or other customers. Most NASDAQ Stock Market securities are now traded on a commission basis as more and more market makers shift from principal to agency trading.

From time to time, Avalon may execute over-the-counter trades on an agency basis rather than directly through a market maker. In these situations, the broker used by Avalon then acquires or disposes of a security through a market maker. The transaction may thus be subject to a mark-up or mark-down. Avalon uses a broker in such instances only when consistent with its duty to seek best execution for Client transactions. The use of a broker in this manner may benefit Clients by providing anonymity in connection with a transaction or

because the broker may, in certain cases, have greater expertise or capability in connection with both accessing the market and executing a transaction. Avalon has found that it may not receive the same level of service through a market maker as through a broker-dealer trading on an agency basis.

Additionally, from time to time, Avalon may cause its Clients to engage in "step out" transactions in which the Client pays commissions in respect of a transaction to one broker, but the transaction is executed by a second broker. Avalon will only cause its Clients to engage in such transactions to the extent that doing so is consistent with Avalon's duty to seek best execution.

Avalon may also use an Electronic Communications Network ("ECN") or Alternative Trading System ("ATS") to effect such over-the-counter trades when, in Avalon's judgment, the use of an ECN or ATS may result in equal or more favorable overall executions for the transactions. Avalon will pay a commission to an ECN or ATS that, when added to the price, is still better than the overall execution price that might have been attained trading "net" with a market maker.

At least annually, and as appropriate depending upon trading volume, Avalon's trading committee ("the Committee") and other appropriate members of Avalon's staff meet to review trading practices and activities, including the quality of executions received and commission rates paid by discretionary accounts, in order to determine what changes, if any, should be made in their brokerage arrangements. The goal of this process is to promote reasonable, good faith judgment to select broker-dealers or other trading venues that will consistently provide quality execution at acceptable cost.

In allocating transactions to broker-dealers and consistent with Avalon's policies and procedures, Avalon takes into account the value of brokerage and research services provided by a broker-dealer, as long as such consideration does not jeopardize the objective of seeking best price and execution for Client transactions. Broker-dealers typically provide a bundle of services including research and execution of transactions. When appropriate under its discretionary authority and consistent with the duty to seek best execution, Avalon may direct brokerage transactions for Client Accounts to broker-dealers who provide Avalon with useful research and brokerage products and services.

Research and Other Soft-Dollar Benefits

Research services provided by a broker-dealer can be either proprietary (*i.e.*, created and provided by the broker-dealer, including tangible research as well as access to analysts and traders) or third-party (*i.e.*, created by a third-party but provided by the broker-dealer). The brokerage commissions used to acquire research in these arrangements are known as "soft dollars." Avalon uses soft-dollars to acquire either or both types of research; however, Avalon will not enter into any agreement or understanding with a broker-dealer that would obligate Avalon to direct a specific amount of brokerage transactions or commissions for such research (or brokerage) services. Nonetheless, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain services and the applicable cash equivalent. Research or brokerage services that may be acquired by Avalon with soft dollars include, without limitation and to the extent permitted by applicable law: (i) research reports on companies, industries and securities; (ii) economic and financial data; (iii) financial publications; (iv) broker-sponsored industry conferences; and, (v) market data related software and services.

Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a "safe harbor" that allows an investment advisor to pay for research and brokerage services with the commission dollars generated by Client Account transactions. Under SEC interpretations, client commissions may be used for certain research- and brokerage-related products and services that assist Avalon in meeting its Clients' investment objectives or in managing the Clients' accounts. The receipt of these services in exchange for soft dollars benefits Avalon by allowing Avalon, at no cost to it, to (i) supplement or assist Avalon's own research and analysis activities, by, for example, arranging or conducting meetings between Avalon and managements of individual companies to allow Avalon to converse with company officials; (ii) receive the views of and information from individuals and research staffs of other securities firms; and, (iii) gain access to persons having special expertise on certain companies, industries, areas of economy and market facts. Therefore, Avalon has an incentive to direct Client Account transactions to broker-dealers that provide research or other products or services. Avalon may allocate brokerage commissions for brokerage and research services that are also available for cash, when appropriate and permitted by law. While the receipt of research in exchange for soft dollars is not expected to reduce Avalon's normal research activities, Avalon's expenses could increase materially if it attempted to generate such additional information and services through its own staff. Avalon may also pay cash for certain services.

Avalon's policies with respect to the use of soft dollars are consistent with the safe harbor except where otherwise disclosed to Clients or Investors. As such, in determining whether to "pay up" for a particular execution, Avalon evaluates whether the related product(s) or service(s) provided by the broker:

- (i) with respect to research items, consist of advice, analyses or reports containing substantive content with respect to appropriate subject matter(s) or (ii) with respect to brokerage items, are sufficiently related to the trading, clearance or settlement of securities transactions and are provided and/or used during the time period beginning when Avalon communicates with the relevant broker-dealer for the purpose of transmitting an order for execution and concluding when the funds or securities are delivered to the advised account or the agent of the accountholder;
- provide lawful and appropriate assistance to Avalon in carrying out its relevant responsibilities to Client Accounts; and,
- are acquired for an amount of commissions which is reasonable in relation to the value of the product or service.

These determinations are made by and based primarily on the professional opinions of the persons responsible for the placement and review of such transactions. Such opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other investors of comparable size and type. Avalon may select broker-dealers based on its assessment of each broker-dealer's ability to provide quality executions and its belief that the research, information and other services provided by such broker-dealer may benefit Client Accounts. It is not possible to place a dollar value on the quality executions or on the brokerage and/or research services Avalon receives from broker-dealers effecting transactions in account securities. Accordingly, broker-dealers selected by Avalon may be paid commissions for effecting account transactions for Client Accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if Avalon determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or

research services provided by those broker-dealers, viewed either in terms of a particular transaction or Avalon's overall duty to its discretionary Accounts.

Research obtained with soft dollars will not always be utilized by Avalon for the specific Account that generated the soft dollars. It should be noted that the value of research and brokerage services often cannot be measured with precision and commissions paid for such services certainly cannot always be allocated to Clients in direct proportion to the value of the services to each Client. Because Avalon routinely batches Client transactions, brokerage commissions attributable to one or more Client Accounts may be allocated to brokers who provide statistical data and other research used by Avalon in managing the Accounts of other Clients, and vice versa. Although it is often inevitable (at least in the short run) that commissions paid by other Accounts may, in effect, subsidize services that benefit other Accounts, Avalon's various sources of research and brokerage services enable Avalon to make better investment decisions and execute more effective trades. Therefore, Avalon does not usually attempt to allocate the relative costs or benefits of research among Client Accounts because it believes that, in the aggregate, the research it receives benefits Clients and assists Avalon in fulfilling its overall duty to Clients.

Avalon may use soft dollars to pay for any specific service or for any portion of its "mixed use" items (products or services that provide both research and non-research benefits). To the extent Avalon should choose to obtain a particular product, it may use available soft dollar credits and pay cash to make up any difference. Further, if the product or service obtained by Avalon is a mixed use item, Avalon may use soft dollars for the research portion and pay cash for the non-research portion. Although the allocation between soft dollars and cash is not always capable of precise calculation, Avalon will make a good faith effort to allocate such items reasonably. Records of any such allocations and payments will be prepared and maintained.

Trades executed in a Client Picks Account, Avalon equity accounts or odd lot trades executed through Advent's Moxy® trade order management system may generate soft dollars with Bloomberg Tradebook, LLC, Instinet, LLC "INSTINET®" or other providers. Client Picks Accounts may be generating soft dollars which are then used by other Client Accounts, creating a potential conflict of interest between Clients.

Brokerage for Client Referrals

Avalon does not enter into agreements with, or make commitments to, any broker-dealer that would bind Avalon to compensate that broker-dealer, directly or indirectly, for client referrals through placement of brokerage transactions. However, except for ERISA Accounts, when one or more broker-dealers is believed capable of providing an equivalent quality of execution with respect to a particular portfolio transaction, Avalon may select a broker-dealer in recognition of the broker-dealer's past referral of the Client for whom the transaction is being executed, or of other Clients, or in anticipation of possible future referrals from the broker-dealer. Avalon may have an incentive to select a broker-dealer that has referred, or may in the future refer, a client to Avalon. In doing so, unless otherwise specifically disclosed to the Client, Avalon will not cause an account to pay higher commissions, concessions or mark-ups/downs than would otherwise be obtainable in connection with such a transaction from broker-dealers that do not provide such referrals but which otherwise provide similar execution quality services (including, as applicable, soft dollar services) for Avalon. Of course, Clients may, as discussed below, limit Avalon's discretion by directing Avalon to trade through a particular broker-dealer, including one which may have referred the Client to Avalon. Additionally, Avalon may exercise its discretion to execute transactions through broker-dealers

that also refer Clients when the use of such a broker-dealer is consistent with Avalon's duty to seek best execution and without consideration of such referrals as a factor in the brokerage decision.

Client Directed Brokerage

While Avalon generally selects broker-dealers to execute transactions for discretionary Clients, as described above, Avalon will accept, in limited instances, direction from Clients as to which broker-dealer(s) should or must be used. In particular, Clients may direct Avalon to use particular broker-dealers to execute account transactions for their Accounts. If the Client directs the use of a particular broker-dealer, Avalon generally asks that the Client also specify, in writing, (1) general types of securities for which the designated firm should be used; and, (2) whether the designated firm should be used for all transactions. Clients who, in whole or in part, direct Avalon to use a particular broker-dealer to execute Account transactions should be aware that, in doing so, they may adversely affect Avalon's ability to, among other things, negotiate commission rates or spreads, or obtain volume discounts on bunched orders or to obtain best price and execution by, for example, executing over-the-counter stock transactions with the market makers for such securities.

In addition, as noted above, transactions for a Client who directs brokerage generally will not be combined or "batched" for execution purposes with orders for the same securities for other Accounts managed by Avalon. In these instances, trades for a Client who has directed Avalon to use a particular broker or dealer to execute its trades will generally have its trades placed at the end of batched trading activity for a particular security. Accordingly, directed transactions may be subject to price movements, particularly in volatile markets, that may result in the Client receiving a price that is less favorable than the price obtained for the batched order. Under these circumstances, the direction by a Client of a particular broker or dealer to execute transactions may result in higher commissions, greater spreads, or less favorable net prices than might be the case if Avalon could negotiate commission rates or spreads freely, or select brokers or dealers based on best execution.

In some cases, a broker may be recommended to an individual Account to provide custodial or other services for the Client. In those cases, transactions may be effected for the Account through the custodial broker while maintaining the primary objective noted above of obtaining the best price and execution at competitive commission rates. Avalon may also receive directives from certain Clients to direct brokerage through or to make a "best effort" to attempt to transact business with a Client-designated broker in consideration for services received solely by that Client from the broker. In such instance, only the Client's own "soft dollars" are used. Unless contrary instructions are provided, in writing, by the Client, primary consideration is still given to seeking best execution of the Client's transactions and Avalon generally cannot guarantee that any particular amount of brokerage will be executed through any particular broker-dealer.

Clients should understand that directing brokerage or otherwise limiting or removing Avalon's discretion to select broker-dealers to execute their Account transactions may affect the quality of executions for their Account. In such circumstances, best price and execution may not be achieved.

Commission Rates or Equivalents

Avalon endeavors to be aware of current charges of eligible broker-dealers and to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the

interests and policies of its Accounts. As noted above, Avalon periodically reviews the quality of executions received from the broker-dealers it uses and may consider the services of other broker-dealers who may be available to execute Client transactions when evaluating Avalon's best execution efforts. Any broker-dealer that has provided (or may be reasonably expected to provide) acceptable performance and whose financial condition and commission rates are acceptable to Avalon may be selected to execute transactions for Client Accounts. Avalon may choose to maintain an "approved broker list" consisting of such broker-dealers; however, broker-dealers not on such a list may still be selected if Avalon believes that using such a broker-dealer is consistent with its duty to seek best execution of Client transactions.

Avalon may choose to set non-binding ranges for commission rates or negotiate with broker-dealers when possible. However, Avalon will not select broker-dealers solely on the basis of "posted" commission rates nor always seek in advance competitive bidding for the most favorable commission rate applicable to any particular portfolio transaction. Although Avalon generally seeks competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker-dealer involved resulting in higher commissions or their equivalents than would be the case with transactions requiring more routine services.

Avalon uses a number of different broker-dealers and may pay higher commission rates (or equivalents) to those whose execution capabilities, brokerage or research services, or other legitimate and appropriate services or efforts on Avalon's behalf are particularly helpful in seeking good investment results for Clients. Avalon recognizes that some brokerage firms are better than others at executing certain types of orders. Thus, it may be in the best interest of Avalon's Clients to use a broker-dealer whose commission rates are not the lowest, but whose executions may result in more favorable results as a result of decreased transaction costs or otherwise. The overriding consideration in allocating Client orders for execution is the maximization of returns through a combination of controlling transaction and securities costs (or maximizing proceeds) and seeking the most effective uses of the broker-dealers' relevant capabilities.

The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates, research, and other services which will help Avalon in providing investment management services to Clients. Avalon may, therefore, use a broker-dealer who provides useful research and brokerage services even though a lower commission might be charged for the same transaction by a broker-dealer who offers no research services and minimal transaction assistance. In this connection, Avalon makes a good faith determination that the amount of commission is reasonable in relation to the value of the research and/or brokerage services provided, viewed in terms of either the specific transaction or Avalon's overall responsibility to its Clients. However, the extent to which commission rates or net prices reflect the value of these services often cannot be readily determined.

Order Aggregation

Because the size and mandate of Client Accounts often differ, the securities held in Client Accounts may not be identical. In appropriate circumstances, any Account managed by Avalon may purchase or sell a security prior to (or after) other portfolios managed by Avalon. This could occur, for example, as a result of the specific investment objectives of the Client, different cash resources arising from contributions or withdrawals, or the purchase of a small position to assess the overall investment desirability of a security.

Transactions for each Client Account are generally effected independently, unless Avalon decides to purchase or sell the same securities for several Clients at approximately the same time. Because Accounts that are managed in similar styles often have similar or identical portfolio compositions and weightings, Avalon may seek to acquire or dispose of the same security for multiple portfolios contemporaneously. As part of the duty to seek best price and execution and consistent with relevant investment advisory agreements, Avalon may, but is not required to, “bunch” or batch together such trades and allocate the trades, in a fair and equitable manner over time, across participating Accounts. Avalon may include proprietary and personnel Accounts in such aggregate trades, subject to its duty of seeking best execution and to its Code of Ethics. Prices received by Avalon personnel participating in a batch trade will be no better than the average price assigned to participating Client Accounts. Executing transactions on a batched basis may facilitate best execution by, for example, allowing Avalon to negotiate more favorable commission rates or prices, to obtain more timely or equitable executions or to reduce overall transaction costs and charges.

Avalon seeks to aggregate trade orders in a manner that is consistent with its duty to: (1) seek best execution of Client orders; (2) treat all Clients fairly and equitably over time; and, (3) not systematically advantage or disadvantage any Client or group of Clients. When a decision is made to aggregate transactions for multiple Accounts, Avalon will allocate the results of those transactions to participating Accounts in a manner that is fair and equitable over time. When a bunched order is filled in its entirety, each participating Account will participate at the average price paid or received, per share or unit, on that day for the bunched order, based, generally, on the initial amount requested for the Account (subject to certain size- or cost-related exceptions), and each participating Account will pay or receive the average share or unit price for the portion of the bunched order filled on that same business day and will pay associated transaction costs based on that Account's participation in the bunched trade. When a bunched order is partially filled, Avalon will allocate the order in accordance with relevant written allocation and aggregation procedures, described generally below.

Pro rata allocation is generally used when a batch order, which usually involves only non-directed Accounts and seeks only liquid, actively traded securities, cannot be fully executed in a single day, unless the Client has expressly directed otherwise. The partial fill is generally allocated among the participating Client Accounts based on the size of each Account's original order, subject to rounding in order to achieve “round lots.” Unexecuted orders will continue until the block order is completed or until all component orders have been cancelled. New orders for the same security will be aggregated with any remaining unexecuted orders and will continue in the same manner. Avalon will generally apply a minimum order allocation amount of 100 shares, which may be adjusted based on market convention associated with the particular security. Similar market conventions may be applied to fixed income trades. If remaining positions are too small to satisfy the minimum order amount, Avalon may decide to allocate the remaining shares to those Accounts seeking large positions which were unfilled. Avalon may also decide to allocate remaining shares to those Accounts whose orders would be completed as a result of the allocation. Avalon may allocate on a basis other than *pro rata*, if, under the circumstances, Avalon believes that such other method of allocation is reasonable, does not result in improper or undisclosed advantage or disadvantage to participating Accounts and results in fair access over time to investment and trading opportunities for all eligible Accounts. For example, Avalon may identify investment opportunities that are appropriate for one Account or group of Accounts but not others (or with respect to which a relatively higher weighting is appropriate for one Account or group of Accounts over others) based on such factors as: investment objectives and style; risk/return parameters; legal, regulatory and client requirements or restrictions; tax status; account size; sensitivity to turnover; available cash; and cash flows. Consequently, Avalon may determine

that it is appropriate to place a given security in one Account rather than another, or to allocate a security more heavily to particular Accounts over others. Other non-*pro rata* methods that Avalon may employ include rotational allocation and random allocation. Alternative methods of allocation may be especially appropriate when the transaction size is too limited to be effectively allocated *pro rata* among all eligible managed Accounts.

Avalon may also consider the following when allocating trades:

- cash flow changes (including available cash, redemptions, exchanges, capital additions and capital withdrawals) which may provide a basis to deviate from a pre-established allocation as long as it does not result in an unfair advantage to specific Accounts or types of Accounts over time;
- Clients with specialized investment objectives or restrictions emphasizing investment in a specific category of securities may be given priority over other Accounts in allocating such securities;
- the proportion that the size of the Client's order bears to the total amount desired by all Clients;
- the size of each Account's original order;
- the desire to achieve "round lots";
- the relative size of the participating Accounts;
- each participating Account's current holdings of the security and other securities; and,
- for bond trades, street convention and good delivery may dictate minimum size and par amounts.

Directed Brokerage

Clients who direct Avalon to use a particular broker dealer may be unable to participate in batched transactions. There may be circumstances where a directed broker would be expected to provide better execution for Clients making such a direction than could be obtained by including those Clients' transactions in the batched order and, in such cases, those transactions will be executed through the directed broker. However, Avalon endeavors to include such Clients in batched transactions through the use of "step outs" when possible. To the extent not included in a batched order, as discussed more thoroughly below, these orders will be executed at the end of any aggregated trading activity. Accordingly, such orders may be subject to price movements, particularly in volatile markets, that may result in a price (without giving effect to relevant transaction costs) that is less favorable than the price obtained for the aggregated order.

While Avalon may effect trades in this manner to reduce the overall level of brokerage commissions paid or otherwise enhance the proceeds or other benefits of the trade for their Clients, Avalon may direct transactions to brokers based on both their ability to provide high quality execution and the nature and quality of research services, if any, such brokers provide. As a result, Clients may not always pay the lowest available commission rates where their

trades are effected in this manner, so long as Avalon seeks to obtain best price and execution, under the circumstances and considering the research and brokerage services provided.

Cross Trades

Avalon may cause an Account to purchase or sell securities from or to, as the case may be, another Account in a "cross trade." When engaging in cross trades, Avalon follows policies and procedures designed to ensure that participating Accounts are treated fairly and that an appropriate price is assigned to the crossed security. In certain circumstances, cross trades may reduce execution-related costs for participating Accounts. Under applicable law, ERISA accounts may be limited in their ability to engage in cross trades.

Allocation of Initial Equity Public Offerings "IPOs"

Avalon generally does not invest Client Accounts in IPOs. To the extent that Avalon determines to invest Client Accounts in IPOs, as defined in relevant rules established by the Financial Industry Regulatory Authority ("FINRA"), such investments will be allocated fairly and consistently with FINRA Rules 5130 and 5131 which provides that broker-dealers, their affiliates and certain other persons ("restricted persons") may not be able to participate in IPOs. Only Accounts that are eligible under Rules 5130 and 5131 to participate in profits and losses attributable to IPOs ("eligible Accounts") will be permitted to receive allocations of new issues. Avalon will make allocations of IPOs generally on a *pro rata* basis among eligible Accounts. However, Avalon may consider, when allocating IPOs, any relevant tax implications for the Client Account and whether and to what extent the Client's Account custodian is capable of executing same day trades in IPOs.

Avalon's Code requires that any investment in an IPO by an access person be pre-cleared by Avalon's CCO. Avalon does not generally grant such requests.

Trade Error Corrections

Avalon's trading desk seeks to execute transactions as instructed by the portfolio manager and in accordance with our duty of care. However, it is possible that, on occasion, errors will occur. When Avalon is responsible for a trade error, Avalon, rather than the Client, bears the costs and risks of erroneous trades. When a trade error is discovered by a trader or other relevant person, the error is documented and Avalon transfers the error to its "error account" when possible at the price paid or received by the Client and seeks to unwind the position as quickly as is practicable. (If a Client has directed Avalon to use a particular broker or custodian, the trade error policy of that broker or custodian will dictate the trade error mechanics.) Avalon bears the economic risk on positions in the error account – if the corrective transaction results in a loss, Avalon absorbs the loss and if the corrective transaction results in a gain, Avalon keeps the gain. Additionally, Avalon or the broker or custodian absorbs all brokerage or other transaction costs related to correcting errors.

REVIEW OF ACCOUNTS

Review of the Accounts will be ongoing and continuous by the Client Advisor assigned to the Account, and such reviews will generally include a review of the Account's strategy, performance and other matters. In addition, the Client Advisor assigned to a Client will discuss with the Client the Client's overall strategy and goals regularly (no less than twice annually) or as often as the Client requests.

Avalon maintains trade confirmations for each Client. Clients are encouraged to contact Avalon if there are any changes in their financial situation or investment objectives.

Clients are able to access and review their Accounts and portfolios over the internet at all times. On a quarterly basis, Avalon sends each Client a report which contains information regarding (i) the assets held in the Account; (ii) the performance of the Account in both percentage and dollars; and, (iii) any transactions in the Account during that quarter. Each Client receives an annual Realized Gains & Loss Report.

Quarterly reports from Avalon to each Client will reflect each Client's position, as appropriate, in a private fund for which the Client receives Client Advisory Services.

Investors in Private Funds will receive such reports as are provided for in the relevant Private Fund's PPM and, to comply with the Custody Rule, the Private Fund's advisor may choose to provide annual audit reports within 120 days following the Private Fund's fiscal year end (180 days for a fund of funds). Such annual reports include or are accompanied by information with respect to the performance of the Private Fund, as well as information regarding the Investor's capital Account, and certain tax reporting information (e.g., Form K-1). Investor reports are generally issued no less frequently than quarterly, and may include valuations of the Private Fund's assets, transaction summaries and the value of an Investor's interest in the Private Fund as well as unaudited financial information including the performance of the Private Fund against an appropriate benchmark.

Investors in Avalon Private Funds will receive reports as are provided for in the relevant documents. In order to comply with the Custody Rule, Avalon provides annual audit reports within 120 days following the fiscal year end of High Income Municipal Fund and 180 days following the fiscal year end of Avalon Carlyle and AGRA. Such annual reports include or are accompanied by information with respect to the performance of the Avalon Private Fund, as well as information regarding the investor's capital Account, and certain tax reporting information (e.g., Form K-1). Investors in High Income Municipal Fund receive quarterly updates on the performance of each fund as appropriate. Investors in Avalon Carlyle and AGRA are provided with quarterly reports containing descriptive investment information and such other information as is necessary for the preparation of tax returns.

Avalon may rely on information provided by third parties in preparing reports and a third party may assist in preparing or distributing reports. To the extent reports include or rely upon information from a source other than Avalon (e.g., index information when a report includes a comparison of the Account's performance to that of an index), Avalon attempts to obtain such information from reliable sources; however, the accuracy of such information cannot be guaranteed. Additionally, as noted in the section titled "Fees and Compensation" above, reports may include or rely upon fair value determinations made by Avalon or a third party. While such valuations are made in good faith, their actual or empirical accuracy cannot be guaranteed.

Avalon personnel are available to meet with Clients and Investors upon request and, upon reasonable request, will tailor reporting to meet the particular needs of a Client.

CLIENT REFERRALS AND OTHER COMPENSATION

As discussed above, Avalon's use of a prime broker or Custodian may yield increased administrative ease and, therefore, increased profitability for Avalon.

CUSTODY

In response to Client requests for assistance with third-party wire and other asset-transfer requests, Avalon may operate under a standing letter of authorization or may instruct custodians on a client's instruction to move assets to third parties. In these cases, Avalon may be deemed to have "custody" of Client accounts within the meaning of the Custody Rule. As required by the Investment Adviser Custody Rule 206(4)-2(a)(4), Avalon has contracted with an independent auditor to have an annual surprise exam of Client assets to independently verify the Client funds and securities.

If Avalon is deemed to have custody over a Client Account, the Account Custodian will send the Client periodic account statements (generally monthly in the case of account activity, and at least on a quarterly basis) indicating the amounts of any funds or securities in the Account as of the end of the statement period and any transactions in the Account during the statement period. A Client should review these statements carefully. Additionally, a Client should contact Avalon immediately if Account statements are not received from the Account Custodian on at least a quarterly basis.

As noted in the section entitled "Review of Accounts" above, Avalon may provide each Client, with reports or account statements providing information about the Client's Account(s). Each Client should compare these carefully to the account statements received from the Account Custodian. If the Client should discover any discrepancy between the account statements, the Client should contact Avalon and the Account Custodian immediately.

Because an entity related to Avalon serves as general partner or managing member of an Avalon Private Fund, Avalon is also deemed to have custody over the Avalon Private Funds within the meaning of the Custody Rule. To comply with this Rule, the general partner provides each Investor in the Avalon Private Funds audited financial statements within 120 days following the Avalon Private Funds' fiscal year end (and within 180 days following the fiscal year end for any Avalon Private fund of funds.) The audit is conducted by a PCAOB registered and inspected firm. The Client should review these audited financial statements carefully. If the Client has invested in the Private Fund or an Avalon Private Fund and has not received audited financial statements timely, the Client should contact Avalon immediately.

INVESTMENT DISCRETION

For discretionary accounts, the Firm has full trading authority under a limited power of attorney assigned to Avalon. As a result, Avalon will determine the following:

- the total amount of securities to buy or sell;
- the broker or dealer through whom securities are bought or sold;
- the commission rates at which securities transactions for Client Accounts are effected; and,
- the prices at which securities are to be bought or sold, which may include dealer spreads or mark-ups and transaction costs.

Except as discussed above in the section titled "Advisory Services" with respect to Funding Accounts, Client Picks Accounts and Restricted or Control Stock Accounts, Avalon typically

does not accept Accounts with limited discretion or where investments are Client-directed, but may accept Client direction as to the broker or dealer through whom securities are bought or sold. Avalon generally requires that such direction be in writing, either as part of the Client contract or otherwise. Avalon reserves the right, in its sole discretion, to change the brokerage arrangements described herein without further notice to Clients or Investors. Avalon will obtain the permission from the Client prior to opening an Account in the Client's name at a custodian.

Investment and brokerage decisions for Client Accounts, to the extent such discretion has been granted to Avalon, are made by Avalon's portfolio managers and traders, with assistance from other relevant personnel. In placing brokerage for such accounts, Avalon seeks to:

- determine each Client's trading requirements;
- select appropriate trading methods, venues and agents to execute the trades under the circumstances;
- evaluate market liquidity of each investment and take appropriate steps to mitigate excessive market impact, to the extent practicable;
- maintain Client confidentiality and proprietary information inherent in the decision to trade; and,
- review the results of executions on a periodic basis.

VOTING CLIENT SECURITIES

Avalon's policy is to accept proxy voting authority only for those Client Accounts where a specific written agreement between Avalon and the Client obligates Avalon to do so. Consequently, Avalon generally will not vote proxies relating to equity securities in Client Accounts. Clients who wish to vote proxies should inform their Account Custodian to direct proxy solicitation materials to the Client.

To the extent Avalon has proxy voting authority for a Client Account, Avalon has engaged ProxyEdge, a product of Broadridge Financial Solutions, Inc. ("Broadridge"). ProxyEdge provides proxy information through an automated electronic interface based on share positions provided directly to Broadridge by the Client's custodian or by means of direct input from Avalon. Glass, Lewis & Co, LLC ("Glass Lewis") is an unbiased, unaffiliated third-party proxy voting service integrated with the ProxyEdge electronic interface. Proxies are generally voted in accordance with Glass Lewis recommendations for all client types.

A Client may contact Avalon to request receipt of information about how Avalon voted proxies for the Client's Account, if applicable, or to obtain a copy of Avalon's Proxy Voting Policy.

FINANCIAL INFORMATION

Avalon is not aware of any financial conditions that are reasonably likely to impair the Firm's ability to meet its contractual commitments to its Clients.