

# CYNOSURE

## MANAGEMENT, LLC

79 South Main Street, 3<sup>rd</sup> Floor  
Salt Lake City, UT 84111-1929

[www.cynosuregroup.com](http://www.cynosuregroup.com)

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This brochure provides information about the qualifications and business practices of Cynosure Management, LLC (“Cynosure Management” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at (801) 521-3100, or contact Sophia DiCaro, our Chief Compliance Officer, at [sophia.dicaro@cynosuregroup.com](mailto:sophia.dicaro@cynosuregroup.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 Cynosure Management is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Cynosure Management is a “registered investment adviser.” Registration does not imply a certain level of skill or training.

### BROCHURE DISCLOSURE

In no event should this Brochure be considered to be an offer of interests in any of Cynosure Management’s investment vehicles or relied on in determining whether to invest in any such investment vehicle. It is also not an offer of, or agreement to provide, advisory services directly to any recipient of the Brochure. Rather, this Brochure is designed solely to provide information about Cynosure Management for the purpose of compliance with certain obligations under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided to potential investors in offering documents (the “Offering Documents”). To the extent that there is any conflict between any discussion in this Brochure and the Offering Documents provided to investors, the Offering Documents should govern.

## ITEM 2: MATERIAL CHANGES

The December 2018 “Other than Annual” amendment was filed to capture the withdrawal of Cynosure Advisors, LLC from investment adviser registration with the U.S. Securities Exchange Commission, as well as to capture its consolidation of assets and clients under Cynosure Management, LLC.

The March 2019 Annual Amendment captures an additional hired staff person, added disclosures in Item 10, Other Financial Industry Activity and Affiliations, as well as updated Regulatory Assets Under Management.

*While any material changes to this brochure will be reflected on this page, 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, Sophia DiCaro, by mail at 79 South Main Street, 4<sup>th</sup> Floor, Salt Lake City, UT 84111, or by email at [sophia.dicaro@cynosuregroup.com](mailto:sophia.dicaro@cynosuregroup.com).*

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#### ITEM 4: ADVISORY BUSINESS

Cynosure Management, LLC (“Cynosure Management” or the “Firm”) is an investment advisory firm with offices in Salt Lake City, Utah. Cynosure Management is a member of the Cynosure Group and is an investment firm engaged in providing private investment advisory and wealth management services, as well as providing investment advice with regard to private equity and other alternative investments. Cynosure Management is managed by an appointed board of managers (the “Board of Managers”), which currently consists of Spencer P. Eccles, Herbert E. Scruggs and Keith Taylor, who all founded The Cynosure Group with former managing director, Randal K. Quarles. Cynosure Management’s investment advisory business consists of (i) Direct Private Equity; (ii) Wealth Management services to high-net-worth individuals, family and institutional clients in the Mountain West Region of the United States and (iii) Portfolio Solutions investment counseling. Cynosure Management is organized as a Utah limited liability company, and the principal owners of the Firm are the Randal Quarles and Hope Eccles Family Trust, Spencer P. Eccles, R. Keith Taylor, and Herbert E. Scruggs.

##### **Direct Private Equity**

Cynosure Management provides investment advisory services to pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”), and the securities of which are not registered under the Securities Act of 1933, as amended (the “Securities Act”) (each, an Advisory Pooled Investment Vehicle Client “PIV”), and certain individual investors through separately managed account arrangements. The PIV’s investors are primarily “qualified purchasers” (or “knowledgeable employees”), as defined in the Investment Company Act, and may include, among others, high net worth individuals, pension and profit-sharing plans, trusts, estates, charitable organizations, corporations, limited partnerships and limited liability companies.

Cynosure Management seeks to source and evaluate a wide variety of private corporate investments of different sizes and growth potentials, and to offer investors the opportunity to participate in such investments on a deal-by-deal basis. Generally, Cynosure Management forms a new PIV or a new share class in a PIV for each such investment it chooses to execute, and investors have full discretion to purchase or refrain from purchasing an interest in such PIV or share class within a PIV. Certain third parties may also invest alongside a PIV. Some third parties may be current or former executives of portfolio companies in which a PIV may invest.

As an investment adviser, Cynosure Management identifies investment opportunities and participates in the acquisition, management, monitoring and disposition of investments for each PIV. Because investors in general retain investment discretion to participate in a PIV, Cynosure Management does not limit its search and evaluation efforts to particular industries or geographies. Instead, Cynosure Management closely analyzes investment opportunities in a wide range of companies, from small-cap growth companies to larger, more mature companies, in industries that have ranged from quick service restaurants to financial technology, and in geographies including North America, Latin America, and Europe. Such private equity investments take the form of privately negotiated investment instruments, including unregistered equity securities of both U.S. and non-U.S. issuers. Please see Item 8 of this Brochure for a general description of the investment strategies followed by the PIVs.

Cynosure Management generally provides investment advisory services to each PIV pursuant to a separate investment advisory agreement (each, an “Investment Management Agreement”). The terms of the investment advisory services to be provided by Cynosure Management to each PIV, including any specific investment guidelines or restrictions, are set forth in the PIV’s Investment Management Agreement. Specific investment guidelines or restrictions for each PIV, if any, are set forth in the organizational or offering documents of the PIV. Investment advice is provided directly to the PIV, and not individually to the investors in such PIV.

As described more fully in Item 11, Cynosure Management and its related entities may enter into side letter agreements with certain investors in a PIV providing such investors with customized terms, which may result in preferential treatment.

### ***Wealth Management***

Cynosure Management works closely with its Wealth Management clients to develop comprehensive, customized investment programs based on an analysis of various factors, such as each client’s investment goals, tax position, diversification requirements, other assets held, social concerns, risk tolerance, etc. After completing this analysis, Cynosure Management will construct a portfolio for the client by allocating the client’s assets among various investment strategies (“Strategies”) through investments in separate accounts with sub-advisors and/or pooled investment vehicles. Clients may also direct Cynosure Management to construct a portfolio based on a single or limited number of Strategies that is not part of a comprehensive portfolio management program. Each client’s investment program is monitored on an ongoing basis and may be adjusted from time to time in response to changing market conditions, client circumstances or other factors.

Most of the Strategies used by Cynosure Management for its Wealth Management clients will focus on investments in publicly traded securities, as well as private equity and other alternative investment vehicles to its clients, including PIVs the Firm manages.

### ***Portfolio Solutions***

For certain current large clients (each, a “Solutions Client”) with an existing portfolio of private equity fund investments, Cynosure Management provides investment counseling on the management and administration of those portfolios, including financial analysis of the portfolio’s performance as well as the performance of individual managers, evaluation of co-investment opportunities, review of possible secondary transactions, and recommendations on re-deployment of proceeds as the portfolio matures. Cynosure Management generally provides such services to clients pursuant to a separate Investment Counseling Agreement that sets forth specific investment guidelines or restrictions, if any.

The portfolios for which Cynosure Management provides this advisory service include a wide range of fund types, from small and mid-cap buyout funds sponsored by smaller managers, to industry-specialized funds from the largest managers in the industry, to venture capital funds, and funds of funds. Some of the clients of the Portfolio Solutions service retain full discretion over

the decisions to be taken with regard to their portfolios, and use Cynosure Management's analysis and advice as key inputs in making those decisions.

Portfolio Solutions clients are primarily "qualified purchasers" (or "knowledgeable employees"), as defined in the Investment Company Act, and may include, among others, high-net-worth individuals, trusts, estates, charitable organizations, corporations, limited partnerships and limited liability companies. Cynosure Management is not seeking new clients for this service.

### **Assets under Management**

As of March 2019, Cynosure Management managed approximately \$998 million of client assets on a discretionary basis and \$119 million on a non-discretionary basis, with a total of approximately \$1.1 billion under management.

## **ITEM 5: FEES AND COMPENSATION**

### **Direct Private Equity**

**Fees.** Cynosure Management generally charges asset-based investment advisory fees to each PIV based upon the amount of invested capital. Investment advisory fees paid by a PIV are indirectly borne by its investors. Such investment advisory fees are deducted from PIV assets and may be paid quarterly or semi-annually, and in advance or in arrears, depending upon the PIV. The amount of any investment advisory fee is prorated for periods of less than a full billing cycle at the beginning or end of Cynosure Management's provision of investment advisory services, and any prepaid amount in excess of the prorated fee will be returned upon termination of investment advisory services. The precise amount of, and the manner and calculation of, the advisory fees for each PIV are established by Cynosure Management, as modified by negotiations with investors in the PIV, and are set forth in such PIV's Investment Management Agreement, organizational documents, offering documents or other documentation received by each investor prior to investment in such PIV ("Governing Documents").

Investment advisory fees are negotiable and may be substantially reduced or waived for certain investors.

**Expenses.** Cynosure Management is responsible for paying its own normal operating overhead, including employee salaries, rent and other expenses incurred in maintain its principal place of business ("Cynosure Management Overhead"). In addition to the investment advisory fees described above, each PIV will reimburse Cynosure Management or its affiliates for certain organizational expenses (apart from the Cynosure Management Overhead) that are incurred in connection with the formation of the PIV and the offering of interests in them to potential investors, including but not limited to (i) legal fees and expenses, including for preparing offering materials and preparing and negotiating the Governing Documents, (ii) travel expenses incurred in connection with meetings with prospective investors regarding possible investments in the PIV; and (iii) other expenses related to formation of the PIV

Additionally, and consistent with its Governing Documents, each PIV also generally bears all of the expenses relating to its activities, operations, meetings and eventual liquidation, including,

without limitation and to the extent provided in the applicable Governing Documents, (i) all out-of-pocket fees, costs and expenses incurred in developing, bidding on, evaluating, negotiating, structuring, obtaining regulatory approvals for, purchasing, trading, settling, monitoring, maintaining custody of, financing, accounting, monitoring, holding and disposing of actual investments (to the extent not reimbursed by an entity in which the PIV has invested or proposes to invest, or other third parties), and (ii) broken deal expenses (including legal, accounting, advisory, consulting, or other third-party expenses, any related travel and accommodation expenses, all fees (including commitment fees), costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing any break-up fees, deposits or down payments of cash or other property which are forfeited), to the extent not reimbursed by an entity in which the PIV has invested or proposed to invest, or other third parties.

The Governing Documents of each PIV generally permit the PIV, subject to certain limitations, to borrow funds to pay the expenses described above.

Expenses incurred on an aggregate basis for the benefit of multiple PIVs are allocated across the participating PIVs in a manner Cynosure Management determines to be reasonable and fair to all parties, including allocating costs on a pro rata basis in accordance with assets under management or another metric that is equitable under the circumstances.

**Fees for Services Provided to Portfolio Companies.** Cynosure Management or its affiliates may receive fees related to the making, disposition, or management of portfolio investments by an PIV including, without limitation, acquisition and disposition fees; monitoring fees; directors' fees; financial consulting fees; advisory fees; organization, financing, divestment and topping fees; break-up fees in connection with the termination, cancellation or abandonment of a potential investment; commitment fees; origination fees; and any other fees earned on or relating to the making, disposition or management of portfolio investments.

Additionally, Cynosure Management may receive organizational and syndication fees from its PIVs. A portion of these fees and a portion of the fees related to portfolio company investments or potential investments may reduce or offset the management fees that would otherwise be payable to Cynosure Management by the PIV that made an investment in the particular portfolio company. The portion of portfolio company fees that will reduce or offset management fees is determined in accordance with the Governing Documents of the particular PIV. For example, a percentage of transaction fees, advisory and monitoring fees paid to Cynosure Management by a portfolio company will reduce the management fees payable to Cynosure Management from the PIV that has an investment in that portfolio company. Typically, 80% to 100% of breakup fees (e.g., fees paid by a company if an investment transaction falls through) will reduce Cynosure Management's management fees payable by the PIV that had that investment under review. In no event, will portfolio company fees reduce PIV management fees below zero.

### **Wealth Management**

Cynosure Management's fees for its Wealth Management services are described in general below and set forth in detail in each client's investment advisory agreement with the Firm. Except as otherwise negotiated with a client, fees are typically calculated based upon the quarter-end aggregate market value, as reported by the account custodian, of all assets under management

within the client's account(s), including allocations to cash and accrued interest. Cynosure Management may group multiple accounts of a client (or group of clients, such as a family) together for fee calculation and billing purposes.

The fee schedule for Cynosure Management's Wealth Management and Investment Advisory services is as follows:

<u>Asset Level</u>	<u>Annual Fee</u>
First \$7,500,000	0.70% – 0.90%
\$7,500,000 to \$50,000,000	0.50% – 0.70%
Above \$50,000,000	0.35% – 0.50%

Fees may change over time and different fee schedules may apply if Cynosure Management accepts different types of clients from its currently anticipated client base. Fees for client accounts are negotiable. Thus, some clients may pay more or less than other clients 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 Cynosure Management, 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 Cynosure Management and the client may agree in writing.

Cynosure Management reserves the right, in its sole discretion, to negotiate and to charge different fees for certain investment programs or Strategies 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.

### **Other Fees and Expenses**

In addition to the advisory fees described above, clients will be responsible for paying certain fees and other expenses charged in respect of the investment Strategies that Cynosure Management allocates client assets to. Such fees and expenses are separate from and in addition to the fees paid to Cynosure Management for selecting and monitoring those investments.

- For investment Strategies that are structured as separately managed accounts with sub-advisors, these additional fees and expenses will include the sub-advisory fees charged by the sub-advisor, as negotiated by Cynosure. In addition, clients will be responsible for certain other fees and expenses (e.g., custodial fees, brokerage commissions and similar charges) associated with each of the Strategy types. Such sub-advisory fees and expenses will be passed through to the client by Cynosure.
- For investment Strategies that are structured as pooled investment vehicles, such as mutual funds (including money market funds for cash management purposes), exchange traded funds ("ETFs") or private alternative asset funds, these additional fees and expenses will include the clients' indirect share of any management or other service fees charged to the



pooled investment vehicle by the fund's sponsor, its affiliates and other service providers. In addition, clients may be responsible for other fees and expenses (e.g., custodial fees, brokerage commissions and similar charges) associated with certain pooled investment vehicle strategies.

These fees and expenses will be disclosed to clients more fully in various disclosure documents that will be provided by the sub-advisor, fund manager or other authorized party responsible for each investment Strategy into which a client's assets are allocated.

### **Portfolio Solutions**

Fees for clients of this service are charged quarterly in advance as a percentage of assets on which the Firm advises. The fee calculation is based upon the capital account value as reported by each of the private issues' reporting entities. The Firm is not seeking new clients for this service.

### **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Governing Documents of each PIV generally provide for performance-based compensation to be paid or allocated to their managing member or other managing fiduciary, which are affiliated with Cynosure Management. Such managing fiduciaries' entitlement to performance-based compensation creates an incentive for Cynosure Management to take risks in managing the PIVs that it would not otherwise take in the absence of such arrangements. However, this conflict is mitigated by an investor's discretion to invest in particular opportunities and the potential that a risk of loss would impact Cynosure Management's performance and fee calculation.

Additionally, the provision of performance-based compensation at different rates, or subject to different hurdle rates, or the potential for other forms of performance-based compensation, creates an incentive for Cynosure Management or its affiliates to disproportionately allocate time, services or functions to investment vehicles providing performance-based compensation at a higher rate (or subject to a lower hurdle rate), or to allocate investment opportunities to such investment vehicles. However, Cynosure Management has adopted policies and procedures that, among other things, seek to ensure that investment opportunities are allocated in a manner that it believes in good faith is fair and reasonable under the circumstances and considering such factors as it deems relevant, but in Cynosure Management's sole discretion. Performance-based compensation is in part dependent upon the valuations of the PIV's portfolio investment. The Governing Documents set forth how securities are to be valued and the valuations of private securities are prepared in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"). See Item 11 below for additional information relating to how Cynosure Management generally addresses conflicts of interests.

Performance-based compensation may be substantially reduced or waived altogether for certain investors.

Cynosure Management generally does not charge performance-based fees on its Wealth Management client accounts. In some cases, however, a performance-based fee may be negotiated with terms dependent upon the particular investment requirements of the client. In addition, the Firm may recommend that some clients invest in private funds, direct private investments or co-

investment opportunities managed by the Firm, which charge performance-based fees. The existence of such performance fees may create an incentive for the Firm to take risks in managing such vehicles that they might not otherwise take.

Because Cynosure Management occasionally recommends Strategies for Wealth Management client portfolios that pay performance-based fees and those that do not, the Firm may have an incentive to favor allocating assets to such performance fee paying Strategies over those that do not. Cynosure Management has adopted policies and procedures to address this potential conflict of interest that are designed to ensure that each client portfolio is constructed in a manner that is consistent with the customized investment program established for such client.

## **ITEM 7: TYPES OF CLIENTS**

Cynosure Management provides investment advisory services to:

- High-net-worth individuals and families
- Trusts, estates or charitable organizations
- Charitable foundations
- Corporations and businesses
- Private funds or Pooled Investment Vehicles (PIVs)

### **Direct Private Equity**

Investing in a PIV is usually subject to minimum investment requirements which vary from vehicle to vehicle. Refer to the Governing Documents of the applicable PIV for more information. Cynosure Management may waive such requirements in limited circumstances.

Investment in Cynosure Investment Partners, LLC requires that any investor be a “qualified purchaser” as defined in the Investment Company Act of 1940.

### **Wealth Management**

Cynosure Management prefers to establish relationships of at least \$10,000,000 in order to act as investment manager for a client. However, Cynosure Management may waive this minimum in its sole discretion.

## **ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **A. Methods of Analysis**

#### **Direct Private Equity**

Cynosure Management primarily seeks to make significant investments in operating companies, with a focus on buyout and growth capital transactions. In a leveraged buyout transaction, Cynosure Management seeks to (i) acquire a portfolio company with material prospects for growth in value; (ii) potentially finance the acquisition using leverage from debt incurred by such companies or by the PIV (iii) motivate and incentivize management of such portfolio company in an effort to increase shareholder value; and (iv) sell its interest in the portfolio company when the

value of the business has significantly increased. In a growth capital transaction, Cynosure Management seeks out companies with a high potential for growth, strategic redirection, and operational improvements. Cynosure Management typically does not engage in early stage or venture-type investments.

In evaluating a potential portfolio company, Cynosure Management conducts extensive due diligence to analyze, among other things, the portfolio company's market and competitive position within that market; cost and revenue structures; unique assets, such as brand strength, distribution capability and intellectual property; management team and compensation structure; contingent liabilities (environmental, regulatory, accounting or otherwise); potential growth opportunities; and potential exit strategies.

### **Wealth Management**

In general, Cynosure Management works with each of its clients to develop customized investment programs based on an analysis of various factors, such as each client's investment goals, tax position, diversification requirements, other assets held, social concerns, risk tolerance, etc. Through a thorough understanding and analysis of these factors, Cynosure Management believes it can identify and put in place an investment program best suited for each individual client.

Once this analysis has been completed, Cynosure Management will generally construct a portfolio on the client's behalf by allocating the client's assets among various Strategies through investments in separate accounts with sub-advisors or pooled investment vehicles (including alternative private investment funds). The process for portfolio construction and management involves the following steps:

1. Client financial objectives and risk tolerances are identified and factored into the analysis. Risk tolerances are determined by the objective capacity and the subjective willingness to take risk.
2. Cynosure Management begins the portfolio construction process with a thorough understanding of the investment asset classes available. The asset classes constitute the building blocks of a client portfolio.
3. Cynosure Management performs a statistical analysis to determine "optimized" combinations of various asset classes, with optimization determined by the risk/reward tradeoff (i.e. how much risk is assumed in arriving at a projected level of return).
4. Risk and return projections for various combinations of asset classes are developed by applying various capital market assumptions based on asset class valuations, historical relationships, market risk premiums and the investing environment.
5. To ensure proper diversification and mitigate estimation errors, minimum and maximum allocation constraints are instituted. These constraints are a function of client preferences such as liquidity, growth, cash flows and taxes and the application of prudent judgement.

6. Once a strategic asset allocation is identified, investments are made in an appropriate mix of asset classes, represented by the diverse set of investment Strategies.
7. Cynosure Management performs ongoing monitoring and rebalancing based on the need to maintain appropriate risk-levels and targeted returns, subject to tax, trading and liquidity considerations.

Clients may also direct Cynosure Management to construct a portfolio based on a single or limited number of Strategies that is not part of a comprehensive portfolio management program.

### **Portfolio Solutions**

For its Portfolio Solutions advisory service, Cynosure Management offers investment advice to Solutions Clients with an existing portfolio of private equity and venture capital fund investments on the maximization of value of that portfolio and on the re-investment of proceeds from that portfolio as it matures. Cynosure Management works collaboratively with such clients to evaluate the portfolio's return/risk characteristics, liquidity expectations, and liability profiles and to make recommendations on actions that may be taken to bring those aspects of the portfolio into greater alignment with the client's overall investment objectives in light of the client's entire investment portfolio. Such actions may include evaluation of potential secondary transactions, possible co-investment opportunities, and regular participation on the advisory committees of funds within the portfolio to hold fund managers accountable for meeting target objectives.

## **B. Investment Strategies**

### **Wealth Management**

Through its network of sub-advisors, private fund sponsors and other financial intermediaries, Cynosure Management will have access to a diverse mix of global proprietary fixed income, equity and cash management investment strategies across the risk/return spectrum, enabling Cynosure Management to construct client portfolios with an emphasis on risk management. Cynosure Management will also have access to complementary alternative investment strategies, including private equity and hedge funds, further broadening the opportunity set.

At the time a client's assets are allocated to any particular Strategy, the client will receive additional disclosure from the sub-advisor, or manager of the pooled investment vehicle (as the case may be), providing additional detail with respect to the investment objective, guidelines, restrictions and risk factors applicable to such Strategy. Clients are urged to review such disclosure documents carefully and to be in touch with their client advisor at Cynosure Management with any questions or concerns they may have.

## **C. Risk of Loss**

As with any investment strategy, the investment programs developed by Cynosure Management involve a number of significant risks. The following is a discussion of some of the primary risks associated with Cynosure Management's investment Strategies. However, it is not possible to identify all of the risks associated with investing, and the particular risks applicable to a client's

account or PIV will depend on the nature of the Strategies chosen for such account and the types of investments held in the account or PIV as a result.

While each Strategy or PIV is managed so that the risks incurred are appropriate to the return potential for the Strategy, it is not possible or even desirable to fully eliminate all risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Clients should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses.

**Market Conditions and Financial Market Fluctuations.** A Client may be materially affected by conditions in the financial markets and economic conditions throughout the world, including interest rates; availability and terms of credit; inflation rates; economic uncertainty; changes in laws; trade barriers; commodity prices; currency exchange rates and controls; and national and international political circumstances.

Difficult market conditions are likely to adversely affect a Client by reducing the value or performance of its investments or by reducing its ability to raise or deploy capital.

In 2008, global financial markets began experiencing considerable volatility in the valuations of equity and debt securities and the availability of credit, and the failure of a number of leading financial institutions. As a result of this volatility, the effects of which persist in certain markets, certain governmental bodies and central banks worldwide have undertaken unprecedented intervention programs, the effects of which remain uncertain. The turmoil that began in 2008 led to a significantly diminished availability of credit and an increase in the cost of financing, which materially hindered the initiation of new leveraged transactions and, together with declines in valuations of equity and debt securities, adversely affected the private equity and other alternative investment sectors. To the extent these conditions continue in certain markets or recur more globally, they are likely to adversely affect a Client's investments.

#### **Direct Private Equity and Portfolio Solutions Risks**

Instability in the securities markets and economic conditions generally also increase the risks inherent in private equity investments. The ability to realize investments depends not only on portfolio companies and their historical results and prospects, but also on political, market and economic conditions at the time of such realizations. Continued or renewed volatility in the financial sector may have a material adverse effect on the ability of a Client to buy, sell and partially dispose of its portfolio company investments. Many private equity funds look to the public securities markets as a potential exit strategy, and there can be no assurance that a Client will be able to exit from its investments in portfolio companies by listing its shares on securities exchanges, particularly in markets still experiencing significant volatility or illiquidity. It is possible that the trading market, if any, for the securities of any portfolio company will not be sufficiently liquid to enable a Client to sell these securities when Cynosure Management believes it is most advantageous to do so or at prices that Cynosure Management believes reflect the fair value of such investments, or without adversely affecting the stock price. The ability of portfolio companies to refinance debt securities will typically depend on their ability to sell new securities in the public high-yield debt market or otherwise. There can be no assurance as to the market's liquidity and volatility.

**Highly Competitive Market for Investment Opportunities.** Cynosure Management expects to encounter competition in pursuing investment opportunities from entities pursuing similar investment objectives. Potential competitors include other investment funds, business development companies and other financial investors investing directly or through affiliates. Certain of these entities possess competitive advantages in pursuing investment opportunities, including greater financial, technical, marketing and other resources, higher risk tolerances, different risk assessments, lower return thresholds, lower cost of capital and access to funding sources unavailable to a Client. In addition, a substantial number of private investment funds exist, many substantial in size, which creates a significant amount of capital available for investment in such opportunities.

**Potential Lack of Diversification.** While a Client may seek to diversify its portfolio holdings, there is no assurance as to the degree of diversification that will actually be achieved. Furthermore, because a Client may invest a substantial portion of its capital in a single portfolio company or asset, a loss with respect to any single portfolio investment could have a significant adverse effect on returns. Even if a Client achieves significant diversification, such diversification would not necessarily provide meaningful risk control, and would reduce the profit potential if certain investments were unprofitable while others are profitable.

**Reliance on Cynosure Management.** The success of each Client will depend in part upon the skill and expertise of Cynosure Management's investment professionals and, where applicable, the management of portfolio companies or other investments. There can be no assurance that such professionals will continue to be associated with Cynosure Management throughout the life of any Client, and a loss of the services of key personnel could impair Cynosure Management's ability to provide services to Clients. In addition, members of the investment team of a particular Client will work on other projects for Cynosure Management and, therefore, conflicts may arise in the allocation of such individuals' time.

**Reliance on Portfolio Company Management.** Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Although Cynosure Management will be responsible for monitoring the performance of each investment, there can be no assurance that the existing management team, or any successor, will be able to successfully operate a portfolio company in accordance with the investment objectives of the Client.

**Extensive Government Regulation.** A portfolio company could be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such company. There can be no assurance that a portfolio company will be able to: (i) obtain all required regulatory approvals that it does not yet have or that it may require in the future; (ii) obtain any necessary modifications to existing regulatory approvals; or (iii) maintain required regulatory approvals.

**Tax Considerations.** Cynosure Management expects each Client to be subject to income or withholding taxes in various jurisdictions in which it conducts investment activities. The rate of any withholding taxes and the creditability of such foreign taxes typically depend in part on the

facts and circumstances relating to the particular investment and generally would differ for each investment. Cynosure Management will take positions with respect to certain tax issues that depend on legal and other interpretive conclusions.

**Increased Regulatory Scrutiny.** The financial services industry generally, and the activities of private investment funds and their managers, in particular, have been subject to intense and increasing regulatory oversight. Such scrutiny may increase Cynosure Management's exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight would impose administrative burdens on Cynosure Management, which could include, without limitation, responding to investigations and implementing new policies and procedures. Cynosure Management would expect such burdens to divert its time, attention and resources from portfolio management activities. Cynosure Management anticipates that, in the normal course of business, its officers will have contact with governmental authorities or be subjected to responding to inquiries or examinations. Cynosure Management would also expect the PIVs to be subject to regulatory inquiries concerning their securities positions and trading.

**Uncertainty Regarding Investments.** Cynosure Management seeks to conduct reasonable and appropriate analysis and due diligence of its investments based on the facts and circumstances applicable to each investment. The objective of such analysis and due diligence is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment, to identify possible risks associated with that investment and to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence and making an assessment regarding an investment or portfolio transaction, Cynosure Management relies on available resources, including information provided by the target of the investment and, in some circumstances, third-party investigations. As a result, the due diligence process may at times be subjective. Accordingly, Cynosure Management cannot be certain that due diligence investigations with respect to any investment opportunity or portfolio transaction will reveal or highlight all relevant facts (including fraud) that may be necessary or helpful in evaluating such investment opportunity or portfolio transaction, including the existence of contingent liabilities.

Cynosure Management will generally establish the capital structure of an investment and the terms and targeted returns of such investment on the basis of financial, macroeconomic, and other applicable projections. Projected operating results will normally be based primarily on investment professional judgments or third-party advice and reports. In all cases, projections are only estimates of future results that are based on assumptions made at the time that the projections are developed. There can be no assurance that the projected results will be achieved, and actual results may vary significantly from the projections. General economic, natural, and other conditions, which are not predictable, can have an adverse impact on the reliability of such projections. Assumptions or projections about asset lives; the stability, growth, or predictability of costs, demand, or revenues generated by an investment or other factors associated therewith may, due to various risks and uncertainties including those described herein, differ materially from actual results.

**Non-U.S. Investments.** For a Client that invests outside of the United States, such investments involve certain factors not typically associated with investing in the United States, including risks

relating to trade balances and imbalances and related economic policies; potential price volatility in, and relative illiquidity of, some non-U.S. securities markets; unfavorable currency exchange rate fluctuations; imposition of exchange control regulation by the U.S. or foreign governments; U.S., foreign or other withholding taxes; limitations on the removal of funds or other assets; policies of governments with respect to possible nationalization of their industries; and political difficulties, including expropriation of assets, confiscatory taxation and economic or political instability in foreign nations.

Laws and regulations of foreign countries may impose restrictions that would not exist in the United States and may require financing and structuring alternatives that differ significantly from those customarily used in the United States. There is generally less publicly available information about certain foreign companies than would be the case for comparable companies in the United States, and certain foreign companies are not subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Some countries require governmental approval prior to investments by foreign persons, limit the amount of investment by foreign persons in a particular company or restrict investment by foreign persons to a specific class of securities of a company that have less advantageous terms than the classes available for purchase by nationals. Certain countries require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. A Client could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital or earnings, as well as by the application to the Client of restrictions on investments. In addition, because investments in other countries will likely be denominated in the currencies of such countries, a change in the value of these currencies against the U.S. dollar will result in a corresponding change in the U.S. dollar value of a Client's assets denominated in those currencies.

**Lack of Operating History.** Each PIV will initially be a newly formed entity that has not begun operations and therefore will have no operating history upon which an investor may evaluate its performance. The prior experience of the investment team or the performance of prior Clients does not provide assurance of future investment performance or returns.

**Illiquid and Long-term Investments.** Investment in a PIV may require a long-term commitment with no certainty of return of capital. Investments made by Clients will in general be highly illiquid, and there can be no assurance that a Client will be able to realize on such investments in a timely manner. Although some investments may generate current income, the return of capital and realization of gain, if any, from some investments will occur only upon the partial or complete disposition or refinancing of such investment.

**Hedging.** In connection with certain investments, a Client may employ hedging techniques designed to reduce the risk of adverse movements in interest rates, securities prices, and currency exchange rates. While a Client may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, or currency exchange rates, or the transactional fees associated with such mechanisms may result in a poorer overall performance for such Client than if it had not entered into such hedging transactions.



**Legal, Tax, and Regulatory Risks.** Legal, tax, and regulatory changes could occur during the life of a Client that may adversely affect such Client. There is a material risk that regulatory agencies in the United States, Europe, or elsewhere may adopt burdensome laws (including tax laws) or regulations, or changes in law or regulation, or in the interpretation or enforcement thereof, that are specifically targeted at the private equity industry, or other changes that could adversely affect private equity firms and the funds they sponsor, including a PIV or the portfolio of a Solutions Client.

**Nature of Fund Investments; Risk of Single Investments.** The PIVs intend primarily to make single investments in companies, which may include under-performing, leveraged, or financially stressed or distressed companies. Such investments will necessarily have significant risks as a result of business, financial or legal uncertainties. There can be no assurance that the nature and magnitude of the various factors that could affect the value of such investments will be evaluated correctly. In addition, certain portfolio companies of the PIV's investments may be in businesses with little or no operating history.

**Absence of Regulatory Oversight.** Notwithstanding that Cynosure Management is registered as an investment adviser with the SEC, the PIVs are not required and do not intend to register as investment companies under the Investment Company Act and, accordingly, investors in such vehicles are not afforded the protections of the Investment Company Act.

**Diverse Investor Group.** Investors in a PIV may have conflicting investment, tax and other interests with respect to their investments. As a consequence, conflicts of interest may arise in connection with decisions made by the managing member (or similar managing fiduciary) or investment adviser of such investment vehicle, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to limited partners' individual tax situations.

**Limited Access to Information.** Investors' rights to information regarding a PIV will be specified, and strictly limited, in the Governing Documents of such PIV.

**No Market for Interests: Restrictions on Transfers.** Interests in PIVs have not been registered under the Securities Act, or applicable securities laws of any U.S. state or the securities laws of any other jurisdiction and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and any other applicable securities laws or an exemption from such registration is available. There is no public market for the interests in such investment vehicles and one is not expected to develop. An investor will not be permitted to directly or indirectly assign, sell, pledge, exchange, or transfer any of its interests or any of its rights or obligations with respect to its interests without the prior written consent of the managing member (or similar managing fiduciary) of the PIV Client in question, which consent may be given or withheld in accordance with the Governing Documents of such PIV.

**Risks in Effecting Operating Improvements.** In some cases, the success of an investment strategy will depend, in part, on the ability to restructure and effect improvements in the operations of a portfolio company. There can be no assurance that Cynosure Management will be able to successfully identify and implement such restructuring programs and improvements.

**Investments in Highly Leveraged Companies; Use of Leverage.** While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk. PIV investments and Solutions Clients portfolio transactions, may involve varying degrees of leverage, which could magnify the impact of circumstances such as unfavorable market or economic conditions, operating problems, and other changes that affect the relevant portfolio company or its industry, resulting in a more pronounced effect of such circumstances on the profitability or prospects of such companies.

**Risk of Investments in Less Established Companies.** From time to time, a Client may invest all or a portion of its assets in, or a portfolio company of a Client may acquire, less established companies. Investments in such companies may involve greater risks than are generally associated with investments in more established companies. To the extent there is any public market for the securities held by a Client, such securities may be subject to more abrupt and erratic market price movements than those of larger, more established companies. Less established companies tend to have lower capitalizations and fewer resources, and therefore are often more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow.

**Third-Party Management Risk.** The performance of the fund portfolios on which the Portfolio Solutions business advises is dependent in significant part on the performance results achieved by the underlying funds in which the Solutions Clients invest. With respect to investments involving underlying funds, Cynosure Management will generally not have an active role in the day-to-day management of the underlying funds or the ability to direct the specific investment decisions made by the managers of the underlying funds. The failure of such unrelated investment managers to make profitable investments may have a negative impact on a Solutions Client's ability to achieve its investment goals. Additionally, the success of an underlying fund will to a great degree rely on the skill and experience of the managers of the underlying funds and their ability to manage a franchise successfully, generate attractive returns, and retain key talent. Managers of underlying funds are likely to rely on a limited number of "key personnel," the departure of which could adversely affect the performance of the underlying fund.

### **Wealth Management**

Clients should be aware that, while Cynosure Management 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 adequately diversified. In and of themselves, the individual Strategies are generally not intended to provide a complete investment program.

- ***Common Risks Associated with Investing in Securities Generally.*** Investment in securities may be subject to a number of risks, including the following:
  - *Current Market Conditions.* In recent years, global debt and equity markets have experienced increased volatility and turmoil, which can adversely affect a portfolio.

- *Liquidity in Financial Markets.* The financial markets in the U.S. and elsewhere have experienced a variety of difficulties and changed economic conditions, which could adversely affect the value of a portfolio's assets.
- *Government Intervention and Market Disruptions.* The global financial markets have undergone fundamental disruptions that have led to extensive and unprecedented government intervention that could prove detrimental to the efficient functioning of the markets and adversely affect a portfolio.
- ***Common Risks Associated with Equity Investments.*** Investments in equity securities may be subject to a number of specific risks, including the following:
  - *Equity Securities.* Equity securities (stocks) held in a portfolio may decrease in response to activities of companies or market and economic conditions.
  - *Growth Stocks.* Growth stocks may be more sensitive to market movements because their prices tend to more heavily reflect future investor expectations rather than just current profits. They may also underperform value stocks during given periods.
  - *Value Stocks.* Value stocks may perform differently from the market as a whole and may be undervalued by the market for a long period of time. They may also underperform growth stocks during given periods.
  - *Small-Capitalization Companies.* Small cap stocks may exhibit erratic earnings patterns, competitive conditions, limited earnings history, and a reliance on one or a limited number of products.
  - *Initial Public Offerings.* Initial public offerings (IPOs) are subject to high volatility and limited availability.
  - *Private Placements.* Private placements may be classified as illiquid and be difficult to value.
  - *Derivative Securities.* Derivatives may be difficult to value, may be illiquid and may be subject to wide swings in valuation caused by changes in value of the underlying security. The use of derivatives can result in losses in a portfolio that substantially exceed the initial amount paid or received from the investment.
- ***Common Risks Associated with Non-U.S. Investments.*** In addition to the risks associated with investing in equity securities described above, investments in non-U.S. securities can expose clients to certain additional risks, including the following:
  - *Foreign Markets.* Foreign markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.
  - *Foreign Securities.* Foreign stocks are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets.

- *Foreign Currency Markets.* Investments in foreign securities expose a portfolio to fluctuations in currency exchange rates, which may adversely affect the value of investments in foreign securities held in a portfolio.
- *Emerging Markets.* Securities traded in certain emerging markets may be subject to risks due to the inexperience of financial intermediaries, the lack of modern technology, the lack of a sufficient capital base to expand business operations, and the possibility of temporary or permanent termination of trading. Political and economic structures in many emerging markets may be undergoing significant evolution and rapid development, and emerging markets may lack the social, political and economic stability characteristics of more developed countries.
- ***Common Risks Associated with Fixed Income Investments.*** Investments in fixed income securities can expose clients to certain specific risks such as the following:
  - *Credit Risk.* Fixed income securities (bonds) are subject to the risk that the bond issuers may not be able to meet interest or principal payments when the bonds come due.
  - *Below Investment Grade Rated Securities.* Below investment grade bonds are subject to a higher probability that the issuers may not be able to meet payment of interest or principal on a timely basis or at all. These securities also may be less liquid than investment grade securities and experience higher price volatility. It may not be possible to sell these securities at the desired price and within a given time period.
  - *Interest Rates.* Interest rates may adversely affect the value of an investment. An increase in interest rates typically causes the value of bonds and other fixed income securities to fall. Interest rates continue to be at historic lows. Investments with longer maturities, which typically provide higher yields than securities with shorter maturities, may subject a portfolio to increased price changes resulting from market yield fluctuations.
  - *Income Risk.* The income received by a portfolio may decrease as a result of a decline in interest rates.
  - *Prepayment Risk.* There is a risk of prepayment in mortgage- and asset-backed securities. This risk arises when market interest rates are below the interest rates charged on the loans that comprise the securities. Elevated prepayment activity may result in losses in these securities.
  - *Liquidity Risk.* Investments that trade less can be more difficult or more costly to buy, or to sell, than more liquid or active investments. It may not be possible to sell or otherwise dispose of illiquid securities both at the price and within a time period deemed desirable. Securities subject to liquidity risk include emerging market securities, Rule 144A securities, below investment grade securities and other securities without an established market.

- *Foreign Investments.* Foreign investments often involve additional risks, including political instability, differences in financial reporting standards and less stringent regulation of securities markets.
- *Derivative Securities.* Derivatives may be difficult to value, may be illiquid and may be subject to wide swings in valuation caused by changes in value of the underlying security. The use of derivatives can result in losses that substantially exceed the initial amount paid or received.
- *Rule 144A Securities.* Rule 144A securities are not registered for resale in the general securities market and may be less liquid than registered securities.
- ***Common Risks Associated with Alternative Investments.*** Investments in alternative investment strategies (such as private equity, private debt, hedge fund, real asset and dynamic allocation strategies) can expose clients to certain specific risks associated with the following:
  - *Derivative Securities.* Derivatives may be difficult to value, may be illiquid and may be subject to wide swings in valuation caused by changes in value of the underlying security. The use of derivatives can result in losses that substantially exceed the initial amount paid or received.
  - *Short Sales.* A short sale involves the risk of a theoretically unlimited increase in the market price of a security sold short, which could result in an inability to cover the short position and a theoretically unlimited loss.
  - *Commodity and Futures Contracts.* Commodities futures markets (including financial futures) are highly volatile and are influenced by factors such as changing supply and demand, governmental programs and policies, national and international political and economic events and changes in interest rates. A high degree of leverage is typical in commodities futures trading, and as a result, a relatively small price movement may result in substantial losses.
  - *High Yield Securities.* High yield securities are rated in the lower rating categories by the various credit agencies and are subject to greater risk of loss of principal and interest than higher rated securities. High yield securities generally are considered predominantly speculative with respect to the issuer's capacity to pay interest and repay principal.
  - *Options.* Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so an investor loses their premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security, which could result in a potentially unlimited loss.
  - *Foreign Securities.* Foreign stocks are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets.

- *Foreign Currency Markets.* Investments in foreign securities expose a portfolio to fluctuations in currency exchange rates, which may adversely affect the value of investments in foreign securities held in a portfolio.
- *Currency Risks.* Investments denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more currencies.
- *Interest Rates.* Interest rates may adversely affect the value of an investment. An increase in interest rates typically causes the value of bonds and other fixed income securities to fall.
- *Leverage.* The use of borrowing (leverage) exposes an investor to additional levels of risk including greater losses from investments than would otherwise have been the case without borrowing; margin calls or changes in margin requirements may force premature liquidations of investments; and losses on investments where the investment fails to earn a return that equals or exceeds the cost of the leverage.
- *Lack of Diversification.* Alternative investment funds may not generally be as diversified as other investment vehicles. Accordingly, such investments may be subject to more rapid change in value than would be the case if the funds were required to maintain a wide diversification among types of securities, geographical areas, issuers and industries.
- *Event-Driven Trading.* Event-driven trading involves the risk that the event identified may not occur as anticipated or may not have the anticipated effect, which may result in a negative impact upon the market price of securities held in the portfolio.
- *Liquidity.* A portfolio's assets may, at any given time, include securities and other financial instruments or obligations that are thinly traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value accurately any such investments.

Clients are urged to review the disclosure documents they receive from the sub-advisors or fund managers of the Strategies into which their portfolio will be allocated for more detailed disclosure of the risk factors that will apply to each specific Strategy

#### **ITEM 9: DISCIPLINARY INFORMATION**

There have been no disciplinary actions against Cynosure Management or any of its owners.

#### **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

As noted above, Cynosure Management is a part of the Cynosure Group.

Cynosure Management is the manager of two pooled investment vehicles which jointly own a minority interest in Avalon Advisors, LLC (“Avalon Advisors”), a registered investment advisor registered with the SEC (SEC File No. 801-60244). Avalon Advisors serves as a sub-advisor to certain clients of Cynosure Management. Cynosure Management expects that it will allocate some of its client’s assets, where appropriate, to investment strategies managed by Avalon Advisors. This creates a conflict of interest as Cynosure Management and Avalon Advisors both receive management fees on the assets allocated to strategies managed by Avalon Advisors. This conflict is mitigated through disclosure to clients, a continual disciplined approach to assessing the client’s investment objectives and risk tolerance, and ensuring the client has reviewed the appropriate documents before investing.

Avalon Advisors is also affiliated with Avalon Wealth Management, LLC, a limited purpose broker dealer that is registered with the SEC (SEC No. 8-69066) and is a member of the Financial Industry Regulatory Authority. Avalon Wealth Management may act as placement agent with respect to the offer and sale of certain PIVs in client portfolios managed by Cynosure Management. Cynosure Management does not currently use Avalon Wealth Management, LLC for the purchase or sale of securities.

Cynosure Management is the manager of a PIV that owns a minority interest in The Prumentum Group, Inc., a wealth-tech company engaged in financial planning and wealth management. In addition, certain Cynosure managed PIVs, in which Cynosure Management investment professionals are also investors, currently own a minority interest in Savant Capital, LLC, a registered investment adviser registered with the SEC (SEC File No. 801-43144), Steward Partners Investment Advisory, LLC, another registered investment adviser registered with the SEC (SEC File No. 801-107426), as well as The Prumentum Group, Inc. Cynosure Management does not direct client assets to their services.

Cynosure Management has a 50 percent interest in 4C GPS GP I, LLC, which is the general partner of, 4C GPS I, LP, 4C GPS II, LP, and 4C GPS III, LP, three private funds that owns an interest in GPS Hospitality. The remaining 50 percent interest in 4C GPS GP I, LLC is owned by 4612 Group, LLC, an investment advisor headquartered in Atlanta, Georgia.

Neither Cynosure Management, nor any of its members of the Firm’s senior management team is registered as a broker-dealer, or as a registered representative of a broker-dealer, nor is there any present intention to do so. Likewise, neither Cynosure Management, nor any of its members of the Firm’s senior management team is registered as a futures commission merchant, commodity pool operator, commodity trading advisor or as an associated person of any such entities, nor is there any present intention to do.

## **ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Cynosure Management has established and approved a Code of Ethics (the “Code”) that sets forth standards of ethical conduct for employees and is designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Investment Advisers Act of 1940, as amended

(the “Advisers Act”). Among other things, the Code prescribes standards for dealing with clients ethically, address conflicts of interest issues, and supplements personal trading and operating procedures. The Code provides guidance in specific areas, including but not limited to, confidentiality of Cynosure Management information, personal investments, gifts and entertainment and personal political activities. A copy of the Code is available to clients, investors, or prospective clients by writing to:

Cynosure Management, LLC  
79 South Main Street, 3<sup>rd</sup> Floor  
Salt Lake City, Utah 84111  
Attn: Chief Compliance Officer

Cynosure Management acts as investment manager to numerous client accounts and PIVs. The Firm’s personnel give advice and take action with respect to client accounts they manage or for their own accounts or the accounts of their family members that are likely to differ from actions taken by Cynosure Management on behalf of other client accounts or PIVs. Cynosure Management is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security or PIV that Cynosure Management or its personnel may buy or sell for its or their own accounts or for any other account the Firm manages. Additionally, Cynosure Management’s personnel may invest or otherwise have an interest, either directly or indirectly, in private funds which, in turn, may invest in vehicles held in other client accounts. Cynosure Management is not obligated to refrain from investing in vehicles held in client accounts, except to the extent that such investments violate Cynosure Management’s Code, adopted pursuant to Rule 204A-1 under the Advisers Act.

From time to time, officers and employees of Cynosure Management will likely have interests in securities owned by or recommended to Cynosure Management’s clients. As these situations may represent a potential conflict of interest, Cynosure Management has implemented procedures relating to personal securities transactions and insider trading that are designed to identify potential conflicts of interest and to prevent or mitigate actual conflicts of interest. These policies and procedures, including Cynosure Management’s Code, are intended to avoid conflicts of interest with clients, and resolve such conflicts appropriately if they do occur. Any supervised person of Cynosure Management who fails to observe Cynosure Management’s Code and related policies risks serious sanctions, including dismissal and personal liability. A copy of the Code is available to any client, or prospective client, upon request.

#### **Misuse of Nonpublic Information:**

Cynosure Management and its supervised 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, Cynosure Management and its supervised persons are prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, even if such other person is a client. Accordingly, should Cynosure Management or its supervised persons 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 Cynosure Management personnel when following policies and procedures designed to comply with law.

Cynosure Management has adopted as a part of the Code a “Policy Statement on Insider Trading” which establishes procedures to prevent the misuse of material nonpublic information by the Firm’s supervised persons. Among other things, Cynosure Management maintains a “restricted list” of securities in which the Firm may not trade because the Firm or its personnel may be in possession of material non-public information concerning the issuer. In addition, Cynosure Management requires that all personnel must read, sign and adhere to the Firm’s policy on insider trading.

### *Personal Securities Trading:*

Cynosure Management requires its personnel to pre-clear all personal trades in securities transactions, an initial public offering or a private placement. In addition, employees are required to submit quarterly reports of their personal transactions in any reportable securities accounts within 30 days of the end of each calendar quarter to the CCO or her designee. Employees also must report all securities holdings in reportable accounts to the CCO or her designee annually, if brokerage statements are not provided each quarter. These are reviewed by the CCO to ensure compliance with the Firm’s policies.

### Principal Transactions

Section 206 of the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. The Advisers Act generally requires that, when an investment adviser or an affiliate of the adviser proposes to purchase a security from, or to sell a security or investment vehicle to, a client (what is commonly referred to as a “principal transaction”), the adviser must make certain disclosures to the client of the terms of the proposed transaction and obtain the client’s consent to the transaction. In connection with its management of the PIVs, Cynosure Management or the PIVs may, in certain limited circumstances, engage in principal transactions.

Cynosure Management has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions. These include that the requisite disclosures be made to the applicable PIV regarding any proposed principal transactions, and that the PIV consents to the transaction in writing prior to execution of the trade. In addition, the Governing Documents relating to the PIV typically contain additional restrictions on Cynosure Management’s ability or that of the PIV to engage in principal transactions and disclosures regarding principal transactions that are likely to arise in the activities of the PIVs.

### Cross Transactions

Cynosure Management may allow Clients to engage in cross transactions, which occur when a transaction is effected directly between two or more Clients. Such cross transactions create conflicts of interest because, by not exposing such buy and sell transactions to market forces, a Client may not receive the best price otherwise possible, or Cynosure Management might have an incentive to improve the performance of one Client by selling underperforming assets to another

Client in order, for example, to earn fees. Additionally, in connection with such transactions, Cynosure Management may have significant investments, or intentions to invest, in the PIV that is selling or purchasing such an investment; or otherwise have a direct or indirect interest in the investment (such as through certain other participations in the investment).

Cynosure Management may receive management or other fees in connection with its management of the Client involved in such a transaction, and may also be entitled to share in the investment profits of the relevant PIV.

In the event that Cynosure Management does effect cross transactions between two or more Clients, it will seek to ensure that such transactions and any related disclosures are made consistent with applicable laws and agreements (including obtaining any requisite approvals thereunder) and its policies and procedures. In particular, Cynosure Management will seek to ensure that the transaction is: in its judgment, in the best interests of each Client involved in the transaction; and in compliance with any investment guidelines or restrictions for such Client.

In effecting these transactions, Cynosure Management will seek to ensure that the purchase or sale is effected at a price that is comparable to a price that could be obtained through an arm's-length transaction with a third party and that is otherwise fair to both parties. Cynosure Management will maintain documentation to memorialize the basis for determining fairness in pricing. Neither Cynosure Management nor any of its affiliates will receive any compensation for effecting a cross transaction.

#### Financial Interest in Client Transactions

As described above in response to Item 5, Cynosure Management and its affiliates from time to time receive financial consulting, advisory, and monitoring fees and other compensation for services provided to portfolio companies of a Client. Such parties will in certain instances also receive accelerated monitoring fees (in connection with an initial public offering or strategic exit, for example), "breakup" fees and other compensation with respect to portfolio company investments (including unconsummated or terminated transactions).

#### Allocation of Investment Opportunities

When allocating investment opportunities across Clients, there could be differences in the financial structure of the Clients potentially participating in the opportunity that could introduce an incentive for Cynosure Management to favor one Client over another.

Cynosure Management has established allocation policies and procedures addressing Cynosure Management's duties to allocate investment opportunities among Clients (or their portfolio companies) in a fair and equitable manner. Most investment opportunities that satisfy the investment parameters of a particular Client will be allocated exclusively to that particular Client. In certain cases, however, an investment opportunity may be appropriate for more than one Client. Any such allocation decisions are initially raised with the Board of Managers of Cynosure Management, which will review the opportunity to determine if an allocation to any other Client may be appropriate in the first instance, taking into account, among other things, whether the

investment satisfies the investment objectives and expected allocation of each Client. If an investment opportunity will be allocated, Cynosure Management will, to the extent practicable, determine in good faith that the allocation is fair and reasonable taking into account the relevant facts and circumstances and parameters of the Governing Documents of Client, the relative amounts of capital available for investment, the nature and extent of involvement in the transaction on the part of the respective teams of investment professionals for each such Client and other considerations deemed relevant by Cynosure Management in good faith. In certain situations, participation of multiple Clients in a single transaction may require consent of the investor advisory committee or the investors of the participating PIVs. Allocation decisions are periodically reviewed by Cynosure Management's senior management to determine the reasonableness and fairness of the allocation decisions. Cynosure Management's policies prohibit the allocation of investment opportunities based on anticipated compensation or profits to Cynosure Management, its affiliates or their professionals.

#### Allocation of Time and Resources

The success of each Client will depend substantially on Cynosure Management's investment professionals' ability to, among other things, source and complete investments, improve the operations and performance of the companies and assets acquired, and exit investments at the appropriate time and at attractive valuations. To achieve those ends, Cynosure Management's investment professionals will devote such time and resources to the activities of each Client as it determines to be appropriate. Cynosure Management's professionals, however, also spend time assisting other Clients with their investment activities or working on other projects. Conflicts therefore arise between Clients with respect to the allocation of investment professional time and resources.

#### Side Letters

Cynosure Management and its related entities routinely enter into side letter agreements with certain investors in a PIV, or establish separate accounts, providing such investors with customized terms, which often results in preferential treatment, with respect to, among other things, the fee structure, including reduced advisory fees or performance-based compensation; the offering of co-investment opportunities; the ability to opt out of certain types of investments; the reporting obligations of the PIV; consent rights with respect to certain amendments to documents that govern their rights and obligations and those of the PIV; the right to transfer interests in the PIV; the right to withdraw from the PIV in the event of adverse tax or regulatory events; the right to appoint a representative to the advisory committee of the PIV, if applicable; additional confidentiality protections; the right to disclose certain information to underlying investors or to the public; structuring rights with respect to certain types of investments; or any other terms, whether economic, procedural or otherwise.

#### Valuations of Investments

There may be situations in which Cynosure Management has an incentive to influence or manipulate the valuation of investments. For example, Cynosure Management could be motivated to overstate valuation in order to: (i) improve the track record of a Client, (ii) minimize losses from

write-downs that must be returned before an affiliate may receive performance-based allocations, or (iii) for certain Clients, increase fees due to the Cynosure Management, such as a management fee that is calculated as a percentage of the value of the client assets.

Cynosure values securities and instruments at their fair value in accordance with GAAP (in particular, Financial Accounting Standards Board Accounting Standards Codification Topic 820, Fair Value Measurements). To facilitate this, Cynosure Management has adopted a written Valuation Policy, supplemented by guidance and valuation templates. If active market quotations are readily available, Cynosure Management generally values securities at their market price, with a discount in certain cases of restricted securities. Otherwise, securities are valued based on management's judgment and estimation in accordance with Cynosure Management's Valuation Policy, guidance, and templates or in accordance with the specific valuation procedure outlined in the Governing Documents or Investment Management Agreement for a PIV or Solutions Client, respectively.

The valuation procedures may differ based on the type of security or instrument and the observability of market inputs, and may include reliance on analyses of similar companies, recent comparable transactions, and discounted cash flow models. For example, a real asset will be subject to valuation methodologies and procedures that are different from those methodologies and procedures used to value a portfolio company or a derivative. Cynosure Management may alter its valuation procedures based on market events, such as trading suspensions, unreliability of pricing sources, or macro-economic events.

#### Service by Cynosure Management Professionals on Portfolio Company Boards of Directors

Cynosure Management's professionals will from time to time serve on the boards of directors of portfolio companies by virtue of the governance agreements Cynosure Management typically negotiates with portfolio companies at the time a PIV makes an investment. While the interests of a PIV as a shareholder in a portfolio company generally align with the interests of shareholders more broadly, it is possible that Cynosure Management's professionals' fiduciary duties to the portfolio company and its shareholders as a director will conflict with the interests of the PIV.

#### Allocation of Investment Opportunities to Cynosure Management

Cynosure Management may, from time to time, be presented with opportunities to acquire an investment advisory business or other financial services business that would be attractive to Cynosure Management as a direct corporate investment and which would be incorporated as part of the Cynosure Management overall investment advisory business. To the extent such an opportunity is acquired by Cynosure Management on its own balance sheet, it would not be viewed as a portfolio investment of a PIV but instead as an addition to Cynosure Management's operating business as an investment adviser. Some of these acquisition opportunities may also appear to be suitable as potential investment opportunities for investors in PIVs or for one or more portfolio companies of existing PIVs. However, these additions to the overall Cynosure Management investment advisory platform would not be included in the investment mandate of Cynosure Management's PIVs and their portfolio companies.

## Service Providers

Administrators, lenders, brokers, attorneys, consultants, investment banking firms, valuation agents, and other service providers may provide services to a Client, or a portfolio company thereof. Certain service providers may from time to time be owned by another Client or may invest alongside one or more other Clients in various investment opportunities. This may influence, or have the appearance of influencing, the decision whether to select such service provider (especially for work related to a Client, or a portfolio company thereof). These arrangements may involve fees, servicing payments or similar compensation that is not subject to a management fee offset.

Certain service providers to Clients, or a portfolio company thereof, may also be service providers to Cynosure Management, its affiliates or their employees. This may influence, or have the appearance of influencing, the decision whether to select such service provider (especially for work related to a Client, or a portfolio company thereof). In certain circumstances, advisors and service providers, or their affiliates, may charge different rates or have different arrangements for services provided to Cynosure Management, its affiliates or employees as compared to services provided to a Client, which may result in more favorable rates or arrangements than those payable by such Clients.

## Transactions with Investors

Cynosure Management and its affiliates from time to time engage in transactions with prospective and actual investors that entail business benefits to such investors. Such transactions may be entered into before or coincident with an investor's admission to a PIV or during the term of their investment. The nature of such transactions can be diverse and may include benefits relating to one or more PIVs and their respective portfolio companies. Examples include the ability to co-invest alongside PIVs in acquisitions of a portfolio company and recommendations to underwriters for allocations in initial public offerings.

## **ITEM 12:      BROKERAGE PRACTICES**

### **Direct Private Equity**

For each PIV, Cynosure Management has sole discretion over the purchase and sale of investments (including the size of such transactions) and the broker or dealer, if any, to be used to effect transactions. Cynosure Management will seek the best price and execution available except to the extent it is permitted to pay higher brokerage commissions in exchange for brokerage and research services. "Best execution" means obtaining for a PIVs the lowest total cost (in purchasing a security) or highest total proceeds (in selling a security), subject to the circumstances of the transaction and the quality and reliability of the executing broker or dealer.

### **Wealth Management**

Cynosure Management does not typically execute securities transactions on behalf of its clients, as this function will generally be delegated to the sub-advisors or investment funds to which client assets are allocated. However, Cynosure Management will occasionally execute trades in pooled

investment vehicles (such as mutual funds, closed-end investment companies, exchange-traded funds or privately-placed hedge funds, private equity funds or similar alternative investment vehicles) on behalf of its clients.

Where possible, Cynosure Management will seek to deal directly with the applicable fund sponsor rather than through a broker-dealer or other financial intermediary, if Cynosure Management believes that this will be in the best interests of its clients. If, consistent with its duty to seek best execution, Cynosure Management does choose to trade through an intermediary, Cynosure Management will select such intermediary based on all relevant factors, including the intermediary's reputation, quality of services, ability to provide liquidity, ability to obtain interests in the particular investment funds that Cynosure Management wishes to invest in, execution capabilities, commission rates, responsiveness and financial strength. In considering these factors, Cynosure Management recognizes that different brokers may have different execution capabilities with respect to different types of securities and transactions, and that no broker will likely be judged the best at every relevant factor as a general matter or with respect to a particular transaction. In particular, Cynosure Management may choose not to execute trades through brokers that charge the lowest possible commission rates if, in Cynosure Management's judgment, other considerations lead Cynosure Management to conclude that other broker dealers are more likely to deliver best execution for its clients.

#### Soft Dollars

Cynosure Management does not have formal soft dollar arrangements; however, Cynosure Management from time to time uses research services provided by brokers that execute trades on behalf of client accounts. When Cynosure Management uses client commissions to pay for or obtain research, the Firm receives a benefit since it does not have to produce the research itself or pay for the research with its own money. As a result, Cynosure Management may have an incentive to select a broker-dealer based on its own interest in receiving research, rather than on its clients' interest in receiving best execution. The commissions client accounts may pay to obtain or pay for research (and trade execution services) may be higher than they would be if research was not considered in selecting brokers to execute trades. In addition, Cynosure Management does not require that research obtained or paid for with client commissions be used only to benefit the accounts that paid for the commissions. Cynosure Management generally uses research obtained or paid for with commissions to benefit a broad range of clients.

The research Cynosure Management obtains and pays for with client commissions may only include:

- Advice as to the value of securities, the advisability of investing in, purchasing or selling securities, and the availability of securities or purchaser or sellers of securities; and
- Analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts.

Specific types of research Cynosure Management obtains or pay for with client commissions include (i) fundamental, quantitative and technical issuer, industry, sector, market, asset class,

economic and policy research reports and analyses, and (ii) portfolio strategy research. The research is generated by either an executing broker-dealer or by third parties.

Under Cynosure Management's policy, research paid for with client commissions must be eligible under the Section 28(e) safe harbor and must be used only to provide lawful and appropriate assistance to the performance of Cynosure Management's investment decision-making responsibilities.

#### Brokerage for Client Referrals

Cynosure Management does not use brokerage relationships for client referrals, nor does it take client referrals into consideration when selecting brokers for executing trades.

#### Order Aggregation

Where possible and appropriate, Cynosure Management or the sub-advisors for its investment Strategies may choose to aggregate or "batch" trade orders on behalf of multiple clients. Executing transactions on a batched basis may facilitate best execution by, for example, allowing the negotiation of more favorable commission rates or prices, more timely or equitable executions or a reduction of overall transaction costs or charges. Employees may participate in such trades with clients.

#### Directed Brokerage

In an effort to obtain best execution on behalf of clients, Cynosure Management does not accept direction from clients as to which broker-dealers should or must be used to execute securities transactions for their accounts.

### **ITEM 13: REVIEW OF ACCOUNTS**

#### **Direct Private Equity and Portfolio Solutions**

Managing Directors meet bi-weekly to review current and potential investments. Review of each investment made by Cynosure Management is ongoing and continuous, and completed at least quarterly by the Cynosure Management professional assigned to the respective client account(s).

Solutions Clients and investors in a PIV receive quarterly financial reports and audited annual reports. Depending on the particular PIV, investors may also receive monthly reports or letters and quarterly capital account statements.

Certain investors may have the right to obtain additional information relating to a PIV. Accordingly, such investors may possess information regarding the business and affairs of a PIV or its portfolio company or companies that may not be known to other investors. As a result, certain investors may be able to take actions on the basis of such information that, in the absence of such information, other investors do not take.

### **Wealth Management**

Review of each client's accounts will be ongoing and continuous, and completed at least quarterly by the Client Advisor assigned to the account. Such reviews will generally include a review of the account's Strategies, performance and other matters. In addition, the Cynosure Management Client Advisor assigned to each client will discuss the client's overall strategy and goals with the client as often as the client requests. Clients are encouraged to contact Cynosure Management if there are any changes in their financial situation or investment objectives.

Clients are able to access and review their accounts daily. On a quarterly basis, Cynosure Management will provide each client a report containing the following information: (i) the assets held in the account(s); (ii) the performance of the account(s) in both percentage and dollars; and, (iii) any transactions in the account(s). Each client will also receive an annual Realized Gains & Losses Report.

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

Cynosure Management personnel are available to meet with clients upon request and, upon reasonable request, will tailor reporting to meet the particular needs of a client.

### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

#### **Direct Private Equity**

As described above, in addition to management fees payable and performance-based allocations allocable to Cynosure Management and its affiliates, Cynosure Management and its affiliates may receive acquisition, disposition and ongoing fees with respect to advisory and related services provided in connection with investments by PIVs. Cynosure Management and its affiliates may enter into cash compensation arrangements with Avalon Wealth Management, unaffiliated placement agents or third parties for introducing investors to Cynosure Management in respect of a PIV. Any sales charge associated therewith will ultimately be payable by Cynosure Management or its affiliates, either directly or through an offset of the management fee payable by the PIV.

In accordance with Cynosure Management's policies, no investor shall bear any portion of any fee paid to any third-party solicitor with respect to such investment (whether in the form of higher management fees or other types of fees).

#### **Wealth Management**

Cynosure Management does not currently have any such arrangements in place for this service.



## ITEM 15: CUSTODY

### **Direct Private Equity**

Cynosure Management is deemed to have custody of the underlying assets of many of its PIVs. Cynosure Management relies on an exception available to “pooled investment vehicles” from the reporting and surprise audit obligations imposed by Rule 206(4)-2 under the Advisers Act. In addition to holding client assets with an unaffiliated, qualified, third-party custodian, these client assets (where Cynosure Management is deemed to have custody) are also subject to a year-end audit, prepared in accordance with generally accepted accounting principles, by a major accounting firm that is a member of, and examined by, the Public Company Accounting Oversight Board. The audited financial statements are provided to the underlying investors of the PIVs within 120 days of the end of the fiscal year.

### **Wealth Management**

In response to client requests for assistance with third-party wire and other asset-transfer requests, Cynosure Management 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, Cynosure Management will be deemed to have “custody” of client accounts within the meaning of Rule 206(4)-2 under the Investment Advisers Act of 1940 (the “Custody Rule”). As required by the Custody Rule, Cynosure Management will report these accounts as under the Firm’s custody and will arrange for an independent auditor to have an annual surprise exam of client assets in these accounts.

For all client accounts managed by Cynosure Management, the applicable 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 executed on behalf of the Account during the statement period, including the deduction of Cynosure Management’s management fee. A client should review these statements carefully.

As noted in the section entitled “Review of Accounts” above, Cynosure Management 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 their Custodian. If the client should discover any discrepancy between the account statements, the client should contact Cynosure Management and the Custodian immediately.

## ITEM 16: INVESTMENT DISCRETION

### **Direct Private Equity**

Pursuant to the Investment Management Agreement of each PIV, and subject to the direction and control of the managing member or other managing fiduciary of such PIV, Cynosure Management generally performs the day-to-day investment operations of each such Fund in accordance with the

terms and conditions of the Governing Documents of such PIV. Generally, Cynosure Management has discretionary authority over the PIVs it manages.

### **Wealth Management**

For discretionary accounts, Cynosure Management has full trading authority under a limited power of attorney assigned to the Firm. As a result, Cynosure Management will be authorized to determine the following: 1) the total amount of securities to buy or sell; 2) the broker or dealer through whom securities are bought or sold; 3) the commission rates at which securities transactions for client accounts are effected; and 4) the prices at which securities are to be bought or sold, which may include dealer spreads or mark-ups and transaction costs.

In addition, Cynosure Management will have the authority to delegate these investment powers to the underlying sub-advisors or fund managers that will manage the various investment Strategies to which a client's assets will be allocated.

Cynosure Management 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. Cynosure Management generally requires that such direction be in writing, either as part of the client contract or otherwise. Cynosure Management reserves the right, in its sole discretion, to change the brokerage arrangements described herein without further notice to clients. Cynosure Management will notify the client prior to opening an Account in the client's name at a custodian.

### **Portfolio Solutions**

Cynosure Management generally provides investment advisory services to these clients on a non-discretionary basis.

## **ITEM 17: VOTING CLIENT SECURITIES**

For client assets allocated to a certain sub-advisor, Cynosure Management has delegated proxy voting to the respective sub-advisor. Cynosure Management carries out the proxy voting for client assets not allocated to a certain sub-advisor.

Cynosure Management has adopted policies and procedures (the "Proxy Voting Policies and Procedures") that it believes are reasonably designed to comply with the requirements of the Advisers Act. The Proxy Voting Policies and Procedures reflect Cynosure Management's commitment to vote such instruments in a manner consistent with the best interest of its Clients and PIVs.

Under the Proxy Voting Policies and Procedures, unless faced with a conflict of interest between or among Cynosure Management's Clients, Cynosure Management will vote proxies in a manner that serves the best interest of the Client, as determined by Cynosure Management in its discretion, taking into account relevant factors, including, without limitation, (i) the impact on the value of the securities owned by the Client and the returns on those securities; (ii) alignment of portfolio company management's interest with the Client's interest, including establishing appropriate incentives for management; (iii) the ongoing relationship between the Client and the portfolio

company or companies in which it invests, including the continue or increased availability of portfolio information; (iv) industry business and practices; and (v) the requirements imposed on Cynosure Management and its affiliates by the Governing Documents of the PIV, or the Investment Management Agreement of the Wealth Management or Solutions Client. In some cases, Cynosure Management may determine that it is in the best interest of the Client to abstain from voting, and will do so accordingly.

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

#### **ITEM 18: FINANCIAL INFORMATION**

Cynosure Management 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.