

## **Cynosure Management, LLC**

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Cynosure Management, LLC (“Cynosure”). If you have any questions about the content of this Brochure, please contact us at 801-521-3100. The information in the 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 also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

### **BROCHURE DISCLOSURE**

In no event should this Brochure be considered to be an offer of interests in any of Cynosure’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 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. Summary of Material Changes**

- The last update of this brochure was in August 2016. There have been no material changes to our business since that update. The January 2017 “Other Than Annual” amendment contains technical changes and updates.

### **Item 3. Table of Contents**

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

Cynosure Management, LLC (“Cynosure”), a limited liability company organized under the laws of the State of Utah, was formed in 2015, and is a member company of The Cynosure Group, which encompasses separate businesses providing investment advisory and wealth management services. Cynosure is managed by an appointed board of managers (the “Board of Managers”), which currently consists of the Randal Quarles and Hope Eccles Family Trust, Spencer P. Eccles, H. E. Scruggs and Keith Taylor who are the founders of Cynosure. As discussed in greater detail below, Cynosure’s investment advisory business consists of (i) Direct Private Equity and (ii) Portfolio Solutions.

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

Cynosure 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 Client”), and certain individual investors through separately managed account arrangements. The Advisory Clients’ 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 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 forms a new Advisory Client for each such investment it chooses to execute, and investors have full discretion to purchase or refrain from purchasing an interest in such Advisory Client. Certain third parties may also invest alongside an Advisory Client. Some third parties may be current or former executives of portfolio companies in which an Advisory Client may invest.

As an investment adviser, Cynosure identifies investment opportunities and participates in the acquisition, management, monitoring and disposition of investments for each Advisory Client. Because investors in general retain investment discretion to participate in an Advisory Client, Cynosure does not limit its search and evaluation efforts to particular industries or geographies. Instead, Cynosure 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 Advisory Clients.

Cynosure generally provides investment advisory services to each Advisory Client pursuant to a separate investment advisory agreement (each, an “Investment Management Agreement”). The terms of the investment advisory services to be provided by Cynosure to each Advisory Client,

including any specific investment guidelines or restrictions, are set forth in the Advisory Client's Investment Management Agreement. Specific investment guidelines or restrictions for each Advisory Client, if any, are set forth in the organizational or offering documents of the Advisory Client. Investment advice is provided directly to the Advisory Client, and not individually to the investors in such Advisory Client.

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

### Portfolio Solutions

For certain large clients (each, a "Solutions Client") with an existing portfolio of private equity fund investments, Cynosure 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 generally provides such services to clients pursuant to a separate Investment Management Agreement that sets forth specific investment guidelines or restrictions, if any.

The portfolios for which Cynosure 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. In general, the clients of the Portfolio Solutions service retain full discretion over the decisions to be taken with regard to their portfolios, and use Cynosure'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.

### Client Assets

As of January 2017, Cynosure managed approximately \$162.1 million of client assets on a discretionary basis and approximately \$154.8 million of client assets on a non-discretionary basis.

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

### Direct Private Equity

**Fees Generally.** Cynosure generally charges asset-based investment advisory fees to each Advisory Client based upon the amount of invested capital. Investment Advisory fees paid by an Advisory Client are indirectly borne by its investors. Such investment advisory fees are deducted

from Advisory Client assets and may be paid quarterly or semi-annually, and in advance or in arrears, depending upon the Advisory Client. 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'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 Advisory Client are established by Cynosure, as modified by negotiations with investors in the Advisory Client, and are set forth in such Advisory Client's Investment Management Agreement, organizational documents, offering documents or other documentation received by each investor prior to investment in such Advisory Client ("Governing Documents").

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

**Expenses.** Cynosure 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 Overhead"). In addition to the investment advisory fees described above, each Advisory Client will reimburse Cynosure or its affiliates for certain organizational expenses (apart from the Cynosure Overhead) that are incurred in connection with the formation of the Advisory Client 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 Advisory Client; and (iii) other expenses related to formation of the Advisory Client

Additionally, and consistent with its Governing Documents, each Advisory Vehicle 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 Advisory Vehicle 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 Advisory Vehicle has invested or propose to invest, or other third parties.

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

Expenses incurred on an aggregate basis for the benefit of multiple Advisory Clients are allocated across the participating Advisory Clients in a manner Cynosure 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 or its affiliates may receive fees related to the making, disposition, or management of portfolio investments by an Advisory Client, 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 may receive organizational and syndication fees from its Advisory Clients. 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 by the Advisory Client 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 Advisory Client. For example, a percentage of transaction fees, investment banking fees, advisory and monitoring fees paid to Cynosure by a portfolio company will reduce the management fees payable to Cynosure from the Advisory Client that has an investment in that portfolio company. Typically, 80%-100% of breakup fees (e.g., fees paid by a company if an investment transaction falls through) will reduce Cynosure's management fees payable by the Advisory Client that had that investment under review. In no event, will portfolio company fees reduce Advisory Client management fees below zero.

#### **Item 6. Performance-based Fees and Side-by-Side Management**

The Governing Documents of each Advisory Client generally provide for performance based compensation to be paid or allocated to their managing member or other managing fiduciary, which are affiliated with Cynosure. Such managing fiduciaries' entitlement to performance-based compensation creates an incentive for Cynosure to take risks in managing the Advisory Clients 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'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 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 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's sole discretion. Performance-based compensation is in part dependent upon the valuations of the Advisory Client'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 generally addresses conflicts of interests.

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

## **Item 7. Types of Clients**

Cynosure’s advisory clients include the Advisory Clients and the Solutions Clients (collectively, the “Clients”).

Investing in an Advisory Client, or using Cynosure’s Portfolio Solutions advisory service, is generally subject to minimum investment requirements, although Cynosure may waive such requirements in limited circumstances. See Item 4 of this Brochure and refer to the Governing Documents of the applicable Advisory Client for more information.

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

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

#### **Direct Private Equity**

For its Direct Private Equity advisory service, Cynosure primarily seeks to make significant investments in operating companies, with a focus on buyout and growth capital transactions. In a leveraged buyout transaction, Cynosure 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 Advisory Client (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 seeks out companies with a high potential for growth, strategic redirection, and operational improvements. Cynosure typically does not engage in early stage or venture-type investments.

In evaluating a potential portfolio company, Cynosure 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.

#### **Portfolio Solutions**

For its Portfolio Solutions advisory service, Cynosure 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 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.

## **A. Material Risks**

The investment strategies described above, and other strategies that Cynosure may pursue, involve a substantial degree of risk, and investors in an Advisory Client or a client using Cynosure's Portfolio Solutions advisory service, may lose all or a substantial portion of the value of their investments. There can be no assurance that the investment objective of an Advisory Client will be achieved, that an investor will receive a return of its capital contributed to an Advisory Client, or that a Solutions Client will otherwise be able to successfully carry out its investment objectives. Investments in an Advisory Client are suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in an Advisory Client and for which such investment does not represent a complete investment program.

Material risks relating to the investment strategies and methods of analysis described above are described in more detail in the Governing Documents of each Advisory Client.

**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.

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 believes it is most advantageous to do so or at prices that Cynosure 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 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'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 throughout the life of any Client, and a loss of the services of key personnel could impair Cynosure'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 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 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 expects each Client to be subject to income or withholding taxes in various jurisdictions in which it conduct 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 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's exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight would impose administrative burdens on Cynosure, which could include, without limitation, responding to investigations and implementing new policies and procedures. Cynosure would expect such burdens to divert its time, attention and resources from portfolio management activities. Cynosure 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 would also expect the Advisory Clients to be subject to regulatory inquiries concerning their securities positions and trading.

**Uncertainty Regarding Investments.** Cynosure 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 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 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 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 Advisory Client 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 an Advisory Client 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 an Advisory Client or the portfolio of a Solutions Client.

**Nature of Fund Investments; Risk of Single Investments.** The Advisory Clients 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 of the Advisory Client's investments may be in businesses with little or no operating history.

**Absence of Regulatory Oversight.** Notwithstanding that Cynosure is registered as an investment adviser with the SEC, the Advisory Clients 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 an Advisory Client 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 an Advisory Client will be specified, and strictly limited, in the Governing Documents of such Advisory Client.

**No Market for Interests: Restrictions on Transfers.** Interests in Advisory Clients 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 Advisory Client in question, which consent may be given or withheld in accordance with the Governing Documents of such Advisory Client.

**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 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. Advisory Client 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 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.

## **Item 9. Disciplinary Information**

Neither Cynosure, any of its affiliates, nor any of their professionals have been the subject of any legal or disciplinary finding of an investment-related nature that would be material to an existing

or prospective investor's or Solutions Client's evaluation of Cynosure's advisory business or the integrity of its management.

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

Cynosure Advisors, LLC ("Cynosure Advisors") is a commonly controlled affiliate of Cynosure and is registered as an investment adviser with the SEC. Cynosure Advisors is managed separately from Cynosure, but may from time to time make recommendations of interest in Advisory Clients to its own clients.

Certain Advisory Clients, in which Cynosure investment professionals are also investors, currently own a minority interest in Avalon Advisors, LLC ("Avalon"), a registered investment adviser registered with the SEC (SEC No. 801-60244). Avalon is also affiliated with Avalon Wealth Management, LLC ("Avalon Wealth Management"), a limited purpose registered broker dealer that is registered with the SEC (SEC No. 8-69066) and a member of the Financial Industry Regulatory Authority, which may act as placement agent with respect to the offer and sale of certain interests in the Advisory Clients managed by Cynosure.

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

##### Code of Ethics

Cynosure has established and approved a Code of Ethics 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 of Ethics prescribes standards for dealing with clients ethically, address conflicts of interest issues, and supplements personal trading and operating procedures. The Code of Ethics provides guidance in specific areas, including but not limited to, confidentiality of Cynosure information, personal investments, gifts and entertainment and personal political activities. A copy of the Code of Ethics 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: Investor Relations.

##### 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 to, an advisory 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 Advisory Clients, Cynosure or the Advisory Clients may, in certain limited circumstances, engage in principal transactions.

Cynosure has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that the requisite disclosures be made to the applicable Advisory Client regarding any proposed principal transactions, if required by the Advisers Act or applicable law, and the prior consent by the Advisory Client to the transaction be received. In addition, the Governing Documents relating to the Advisory Client typically contain additional restrictions on Cynosure's ability or that of the Advisory Client to engage in principal transactions and disclosures regarding principal transactions that are likely to arise in the activities of the Advisory Clients.

### Cross Transactions

Cynosure 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 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 may have significant investments, or intentions to invest, in the Advisory Client 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 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 Advisory Client.

In the event that Cynosure 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 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 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 will maintain documentation to memorialize the basis for determining fairness in pricing. Neither Cynosure 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 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 to favor one Client over another.

Cynosure has established trade allocation policies and procedures addressing Cynosure’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, 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 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 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 Advisory Clients. Allocation decisions are periodically reviewed by Cynosure’s senior management to determine the reasonableness and fairness of the allocation decisions. Cynosure’s policies prohibit the allocation of investment opportunities based on anticipated compensation or profits to Cynosure, its affiliates or their professionals.

### Possession of Material Non-Public Information

Clients may obtain confidential information regarding various target companies and other investment opportunities. Cynosure imputes confidential information received by one investment team to all other investment professionals that are not behind an information barrier, which as a general matter includes all of the personnel who make investments for Clients. If a Client receives confidential information with respect to a company, other Clients therefore face, as a result of securities law prohibitions on trading on the basis of material non-public information, certain restrictions on their ability to pursue a transaction with that company or dispose of an investment. Moreover, the confidentiality agreements entered into on behalf of Clients often include provisions, such as “standstills,” that would prevent the Clients from acquiring or disposing of certain investments, potentially for extended periods.

### Allocation of Time and Resources

The success of each Client will depend substantially on Cynosure'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's investment professionals will devote such time and resources to the activities of each Client as it determines to be appropriate. Cynosure'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 and its related entities routinely enter into side letter agreements with certain investors in an Advisory Client, 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 Advisory Client; consent rights with respect to certain amendments to documents that govern their rights and obligations and those of the Advisory Client; the right to transfer interests in the Advisory Client; the right to withdraw from the Advisory Client in the event of adverse tax or regulatory events; the right to appoint a representative to the advisory committee of the Advisory Client, 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 has an incentive to influence or manipulate the valuation of investments. For example, Cynosure 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, 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 has adopted a written Valuation Policy, supplemented by guidance and valuation templates. If active market quotations are readily available, Cynosure 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's Valuation Policy, guidance, and templates or in accordance with the specific valuation procedure outlined in the Governing Documents or Investment Management Agreement for an Advisory Client 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 may alter its valuation procedures based on market events, such as trading suspensions, unreliability of pricing sources, or macro-economic events.

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

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

#### Allocation of Investment Opportunities to Cynosure

Cynosure 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 as a direct corporate investment and which would be incorporated as part of the Cynosure overall investment advisory business. To the extent such an opportunity is acquired by Cynosure on its own balance sheet, it would not be viewed as a portfolio investment of an Advisory Client but instead as an addition to Cynosure'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 Advisory Clients or for one or more portfolio companies of existing Advisory Clients. However, these additions to the overall Cynosure investment advisory platform would not be included in the investment mandate of Cynosure's Advisory Clients 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, 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, 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 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 an Advisory Client or during the term of their investment. The nature of such transactions can be diverse and may include benefits relating to one or more Advisory Clients and their respective portfolio companies. Examples include the ability to co-invest alongside Advisory Clients in acquisitions of a portfolio company and recommendations to underwriters for allocations in initial public offerings.

### **Item 12. Brokerage Practices**

For each Advisory Client, Cynosure 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 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 an Advisory Client the lowest total cost (in purchasing a security) or highest total proceeds (in selling a security), subject to the circumstances of the transaction and the quality and reliability of the executing broker or dealer.

In selecting brokers or dealers, Cynosure generally will consider various factors, including: the broker-dealer's reputation, experience and financial stability; the ability to maintain its anonymity; the ability to provide competitive pricing; the transaction's size and timing; the ability and willingness to commit capital and provide prompt and accurate execution and settlement; whether the broker-dealer makes a market in a security and/or finds sources of liquidity; the nature of the market for the security and the difficulty of execution; the broker-dealer's trading expertise, including its ability to minimize total trading costs and to trade without unduly impacting the market; the belief that the broker-dealer charges a fair and reasonable fee for each trade, and that the Advisory Client has been treated fairly and honestly in prior trades; the quality of execution and service rendered by the broker-dealer in prior transactions; any proprietary research and investment ideas; and its overall relationship with the broker-dealer.

Cynosure has no formal arrangements with specific brokers or dealers to receive research or other services beyond transaction execution in exchange for brokerage commissions from client transactions (so-called "soft dollar" arrangements). However, brokers or dealers may be selected who provide Cynosure with brokerage and research services, including but not limited to: proprietary research and analyses concerning specific securities, companies or sectors; news, quotation, statistics and pricing services, as well as discussions with research personnel and consultants; software, databases and other technical and telecommunications services and equipment utilized in the investment management process; and consulting fees in connection with investigating and monitoring potential and existing investments – all of which may be attractive for one or more Clients or to Cynosure itself.

In accordance with Section 28(e) of the Securities Exchange Act of 1934, as amended, broker-dealers providing such services may be paid commissions on Advisory Client transactions in excess of those that other broker-dealers not providing such services might charge so long as Cynosure determines in good faith the amount of commissions is reasonable in relation to the value of the brokerage and research services provided, taking into account all of the accounts over which Cynosure exercises investment discretion. Recognizing the value of the brokerage and research services provided, Cynosure may allow a brokerage commission or negotiated term in excess of that which another broker might have charged for effecting the same transaction.

When Cynosure uses Advisory Client brokerage commissions to obtain brokerage or research services, it receives a benefit to the extent that Cynosure does not have to produce such products internally or compensate third-parties with its own money for the delivery of such services. Therefore, such use of such brokerage commissions results in a conflict of interest, because Cynosure has an incentive to direct brokerage to those brokers who provide research and services Cynosure uses, even if these brokers do not offer the best price or commission rates for the Advisory Clients.

### **Item 13. Review of Accounts**

Managing Directors meet 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 an Advisory Client receive quarterly financial reports and audited annual reports. Depending on the particular Advisory Client, 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 an Advisory Client. Accordingly, such investors may possess information regarding the business and affairs of an Advisory Client 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.

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

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

In accordance with Cynosure'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).

### **Item 15. Custody**

Cynosure is deemed to have custody of the underlying assets of many of its Advisory Clients. Cynosure 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 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 Advisory Clients within 120 days of the end of the fiscal year.

### **Item 16. Investment Discretion**

Pursuant to the Investment Management Agreement of each Advisory Client, and subject to the direction and control of the managing member or other managing fiduciary of such Advisory Client, Cynosure 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 Advisory Client.

For Solutions Clients, Cynosure generally provides investment advisory services on a non-discretionary basis.

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

While Clients generally do not hold public company securities, circumstances may arise where a portfolio company becomes a public company, and in such cases, Cynosure will accept authority to vote public company securities. As a result, Cynosure 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's commitment to vote such instruments in a manner consistent with the best interest of its Clients.

Under the Proxy Voting Policies and Procedures, unless faced with a conflict of interest between or among Cynosure's Clients, Cynosure will vote proxies in a manner that serves the best interest of the Client, as determined by Cynosure 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 and its affiliates by the Governing Documents of the Advisory Client, or the Investment Management Agreement of the Solutions Client. In some cases, Cynosure may determine that it is in the best interest of the Client to abstain from voting, and will do so accordingly.

#### **Item 18. Financial Information**

Cynosure is not aware of any financial condition that could impair Cynosure's ability to meet its contractual obligations to its clients. Cynosure has not been the subject of any bankruptcy petitions, including in the past ten years.