



## Form ADV Part 2A - Firm Brochure

Avalon Investment & Advisory  
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This brochure provides information about the qualifications and business practices of Avalon Advisors, LLC, d/b/a Avalon Investment & Advisory. If you have any questions about the contents of this brochure, please contact our Chief Compliance Officer ("**CCO**") at (713) 238-2050 or [compliance@avalonadvisors.com](mailto:compliance@avalonadvisors.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("**SEC**") or by any state securities authority.

Additional information about Avalon Investment & Advisory is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by name or by a unique identifier known as a CRD number. Avalon's CRD number is 112556.

We are a registered investment adviser with the SEC. The use of the terms "registered investment adviser" or "registered" by us does not imply by itself any level of skill or training.

Each registered adviser must provide advisory clients a brochure and brochure supplements with clearly written, meaningful, current disclosure in a standard format. Please consider the oral and written communications we provide to you, including this brochure, as you decide to hire us or manage your ongoing relationship with us.

## ITEM 2 - MATERIAL CHANGES

Since the annual amendment filed March 30, 2020, no material changes have occurred. A material change which appeared in the March 2020 Disclosure Brochure is also included in this update for reference as it is a recent change. The information is as follows:

### **As of February 21, 2020**

- Avalon eliminates the Avalon fee rate and institutes the Avalon Advisory Fee to provide consistency in asset allocation across internal and/or externally managed investment strategies, including passively managed products selected by the Investment Management team. The Avalon Advisory Fee is based on the total assets under management, generally excluding Private Funds and Avalon Private Funds. The Avalon Advisory Fee is in addition to product fees. This change impacts "Item 5 – Fees and Compensation."

While the material changes to this brochure have been highlighted above, clients can request a copy of this brochure at any time without charge by sending a written request to our CCO at 2929 Allen Parkway, Suite 3000, Houston, Texas 77019-7124 or by email to [compliance@avalonadvisors.com](mailto:compliance@avalonadvisors.com).

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## ITEM 4 - ADVISORY BUSINESS

### ADVISORY FIRM DESCRIPTION

Avalon Advisors, LLC, a Delaware limited liability company, doing business as Avalon Investment & Advisory ("**Avalon**" or the "**Firm**") has been in business since 2001 with offices in Houston, Texas, and since 2014, in San Antonio, Texas. The Firm is owned by Avalon employees, clients, and entities that are part of The Cynosure Group, LLC, a Salt Lake City, Utah-based firm that works with family offices to make long-term equity investments in private companies. No individual or entity owns 25% or more of Avalon.

### TYPES OF ADVISORY SERVICES

Avalon provides both discretionary and non-discretionary investment advice, asset allocation and related services to high net worth separate account clients and institutional investors ("**Private Clients**"). Avalon also acts as investment manager to five privately placed pooled investment funds, referred to herein as "**Avalon Private Funds**": the Avalon Carlyle Private Equity Fund I, LP, the Avalon Global Real Assets Fund, LP, the Avalon High Income Municipal Fund, L.P., the Avalon Private Energy Fund, LP, and Avalon Investment Partners, LLC. The Avalon Private Funds are exempt from registration under the Investment Company Act of 1940. Limited partner interests in the Avalon Private Funds are granted to those investors who satisfy the applicable eligibility and suitability requirements to invest in private placement transactions within the United States. Private Clients and Avalon Private Funds are collectively referred to in this brochure as "**Clients**." Additionally, Avalon, through its Matterhorn Capital Management operating division ("**Matterhorn**"), also provides model portfolios to financial intermediaries.

### TAILORED ADVISORY SERVICES

#### Private Client Accounts

Avalon assesses each Private Client's individual needs (e.g., tax situation, diversification needs, other assets held, social concerns, etc.) to determine the appropriate asset allocation among the Accounts. Private Client assets advised by Avalon are then portioned into one or more separately managed accounts (each an "**Account**" and referred to herein as "**Accounts**"), with each Account serving a different purpose. While not all Private Client allocations include each type of Account, these Accounts could include:

<u>Fixed Income</u>	<u>Equity</u>
• Avalon Cash Account	• Avalon Smart Beta Account
• Avalon Enhanced Liquidity Short Duration Account	• Avalon Core Equity Account
	(Chart continued on next page)

<u>Fixed Income</u>	<u>Equity</u>
• <b>Avalon Short Duration Fixed Income Account</b>	• Avalon U.S. Value Equity Account
• <b>Avalon High Grade Taxable Fixed Income Account</b>	• Avalon Equity Income Account
• <b>Avalon High Grade Tax Exempt Fixed Income Account</b>	• Avalon Equity Income (No MLPs) Account
• <b>Avalon Taxable Fixed Income Account</b>	• Avalon Equity Income (No MLPs) Account Dividend Sweep Account
• <b>Avalon Tax Exempt Fixed Income Account</b>	• Avalon International Value Equity Account
• <b>Avalon Total Market Fixed Income Account</b>	• Avalon International Equity Account
• <b>Avalon High Income Municipal Account</b>	• Avalon International Equity Income Account
• <b>Avalon Custom Fixed Income Account</b>	• Avalon Global Equity Account
	• Avalon Global Equity Income Account
	• Avalon Large Cap Growth Account
	• Avalon Quality Growth Account
	• Avalon SMID Cap Equity Account
	• Avalon Concentrated Equity Account
	• Avalon MLP Account
	• Avalon Diversified ETF Account
	• Avalon Diversified ETF 2 Account
	• Avalon Diversified ETF 3 Account
	<i>(Chart continued on next page)</i>

<u>Fixed Income</u>	<u>Equity</u>
	• Avalon Balanced Taxable Income ETF Account
	• Avalon Balanced Tax Exempt Income ETF Account
	• Avalon Global Macro Account
	• Avalon Income ETF Account
	• Avalon Growth and Income ETF Account
	• Avalon Growth ETF Account
	• Avalon Aggressive Growth ETF Account
	• Avalon Liquid Alternatives Account
	• Avalon External Manager SMA Account
	• Avalon Asset Allocation Account

A Private Client's fees are determined, in part, by the Accounts selected by Avalon to meet the desired asset allocation, as discussed further below.

Additionally, Avalon will facilitate the ability of Private Clients with particular needs (e.g., positions in restricted or control stock, desire to use margin, desire to exercise discretionary authority over a portion of the Account) to establish certain accounts, and each Client could have the following “**Specialty Accounts**”, which are not actively managed by Avalon:

- Funding Account (Discretionary or Non-Discretionary)
- Permanent Cash Reserve
- Client Directed Portfolio Account
- Client Directed Account (No Trading Authority)
- Client Picks Account
- Restricted or Control Stock Account
- Margin Account
- Alternative Investment Account

Each Specialty Account, which is subject to additional fees charged by Avalon as agreed between the Private Client and Avalon, is described later in this section.

Under certain circumstances, Avalon will establish additional Accounts for a Private Client. Except as otherwise described herein, investments for Private Clients are managed in accordance with the Client's investment objectives, strategies, restrictions, and guidelines, as communicated to Avalon by the Private Client or their primary advisor.

## AVALON PRIVATE FUNDS

### Avalon Carlyle Private Equity Fund I, LP

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

### Avalon Global Real Assets Fund, LP

The Avalon Global Real Assets Fund, LP ("**AGRA**") is a fund-of-funds that seeks attractive returns through investing in a portfolio of underlying private equity funds (the "**Targeted Funds**"), each of which is sponsored or advised by Carlyle, or other third-party investment managers. The fund is closed to new investors.

### Avalon High Income Municipal Fund, L.P.

The Avalon High Income Municipal Fund, L.P. ("**High Income Municipal Fund**") primarily seeks to provide investors with income that is exempt from federal income tax by investing in municipal debt securities. Secondly, the High Income Municipal Fund also seeks to achieve capital appreciation by selling municipal debt securities on the over-the-counter (OTC) market. The High Income Municipal Fund can also invest in or hold other assets.

### Avalon Private Energy Fund, LP

The Avalon Private Energy Fund, LP ("**APEF**") is a fund-of-funds that seeks attractive returns through investing all of its assets in Bayou City Energy II, L.P. (the "**Bayou City Fund**") and EnCap Flatrock Midstream Fund IV, L.P. ("**EFM IV**"), each of which is sponsored or advised by a third-party investment manager, respectively Bayou City Energy Management LLC ("**Bayou City**") or ("**EnCap Flatrock Midstream**") a joint venture between Flatrock Energy Advisors, LLC ("**Flatrock**") and EnCap Investments, L.P. ("**EnCap**"). The fund is closed to new investors.

### Avalon Investment Partners, LLC

Avalon Investment Partners, LLC ("**AIP**"), a Delaware limited liability company, was formed in 2019 to allow clients of Avalon to aggregate commitments to, and to make investments in, alternative asset classes. AIP has multiple membership classes, each of which represents an investment in a particular underlying fund (a "**Fund Investment**") or operating company (a "**Direct Investment**"). AIP is designed to allow Clients to make multiple investments while minimizing the administration of owning

multiple Fund Investments and Direct Investments. The structural objective of AIP is to provide an improved alternatives investment experience to investors associated with Avalon through administrative simplicity, institutional access, favorable pricing, portfolio customization, and cash flow management.

Avalon is the sole managing member of AIP and is responsible for the overall management and control of AIP's operations and investment activities. As such, Avalon will be responsible for providing or arranging for all advisory, management and administrative services for AIP. Avalon has engaged Cynosure Management, LLC ("**Cynosure**") as a non-discretionary sub-advisor and administrator for AIP pursuant to a Sub-Advisory and Administrative Services Agreement (the "**Cynosure Agreement**"). Cynosure manages an investment platform structured in substantially the same manner as AIP called Cynosure Investment Partners, LLC ("**CIP**"). AIP and CIP are expected to co-invest in Fund Investments and Direct Investments where the investment opportunity is Avalon-approved for AIP. Pursuant to the Cynosure Agreement, Cynosure will perform the same sourcing, evaluation and investment deal negotiation and documentation services for AIP as it does for CIP. Avalon believes that these arrangements will promote efficiencies in investment opportunities and costs that would not be available on a standalone basis. Avalon and Cynosure are affiliated and this presents conflicts of interest, which are discussed more in Item 10 – Other Financial Industry Activities and Affiliations.

## **PRIVATE FUNDS**

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

If a Private Client invests in an Avalon Private Fund or Private Fund, the value of such interests is feed on the fund investment and is not also charged an Advisory Fee (as defined below). The annual percentage rate for the fees charged for an Avalon Private Fund is based on the size of the investment in the fund, on the blended rate paid by the individual Private Client for equity investments, on the Advisory Fee rate for Accounts, or is otherwise negotiated between the Private Client and Avalon. Investments made in Avalon Investment Partners, LLC ("**AIP**"), described above in this section, are made at the class level, and not on an overall, rate for the AIP fund. Fees are further described in Item 5 – Fees and Compensation.

Additionally, an affiliate of Avalon, Avalon Wealth Management, LLC ("**AWM**"), places Private Funds for compensation. AWM is a member of the Financial Industry Regulatory Authority ("FINRA") and is SEC-registered as a broker-dealer. Please see Item 10 - Other Financial Industry Activities and Affiliations for more detailed information. If AWM is paid for placing these private funds, no Advisory Fee will be charged by Avalon on these funds.



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

Each Avalon Private Fund will be organized as a limited partnership or limited liability company under the laws of the State of Delaware or another appropriate jurisdiction, for which an Avalon affiliate will usually serve as general partner or managing member, as applicable, but is not the investment advisor to the fund. The exception to this is AIP, where Avalon is both the investment adviser and the sole managing member.

Avalon expects each private fund on its platform to qualify for an exemption from the definition of “investment company” under the Investment Company Act of 1940, as amended (“**1940 Act**”) and to offer interests to Investors pursuant to Regulation D or Regulation S under the Securities Act of 1933, as amended (“**1933 Act**”). As a result, this brochure could discuss information relevant to such investors, as necessary or appropriate. **Nonetheless, this brochure is designed solely to provide information about Avalon and should not be considered to be an offer of interests in any Private Fund. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this brochure is designed solely to provide information about Avalon for the purpose of compliance with certain obligations under the Advisers Act and, as such, responds to relevant regulatory requirements under the Advisers Act. This information is more limited than the information provided in a PPM. To the extent this brochure differs from the disclosure provided in a PPM, the PPM governs.

## **SPECIALTY ACCOUNTS**

### **Funding Account (Non-Discretionary or Discretionary)**

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

### **Permanent Cash Reserve Account**

A cash reserve account maintains a reserve of cash for client checking or funding commitments. Avalon assists in establishing a brokerage account with preferred, unrelated custodial broker-dealers where cash is invested in a money-market “sweep” product, which has its own fees and expenses, as described in the prospectus for the product. At the Client's written direction, Avalon assists with money movements to and from this Account. Avalon does not charge an additional fee for this Account.

### **Client Directed Portfolio Account**

Clients who wish to make certain investment decisions on their own can establish a Client Directed Portfolio Account to facilitate these trades. Avalon will assist the Client in establishing a brokerage account with a preferred, unrelated custodial broker-dealer so that the Client can obtain transaction costs at Avalon's negotiated, institutional rates. Avalon can also assume the Client Directed Portfolio Account's custodial fees. Avalon does not have trading authority on Client Directed Portfolio Accounts. Avalon does not charge an additional fee for this Account.

### **Client Picks Account**

Under certain legacy arrangements, Clients who wish to make specific investment decisions on their own ("**Client Picks**") have established an account. The Client informs Avalon as to the desired transactions and Avalon executes the trades on the Client's behalf. Although Avalon will not review any Client Picks trade as to the merits of such trade or for consistency with the Client's investment objectives, Avalon can combine these trades with other Client trades to seek best execution or for other reasons. Additionally, Avalon employee-related, proprietary or other Client accounts could hold or take action on securities traded by a Client through a Client Picks Account; Avalon has no obligation to inform a Client requesting a Client Picks trade of any such holdings or actions.

Avalon will not act as a broker or dealer with respect to Client Picks trades. Rather, Avalon offers Client Picks Accounts the use of its trading desk in these circumstances as a courtesy and convenience to Clients and not for any transaction-based compensation. Avalon can refuse any trade or discontinue access to its trading desk at any time. Avalon does not charge an additional fee for this Account.

### **Restricted or Control Stock Account**

Clients can hold restricted stock or be an "insider" or "control person" under federal securities laws ("**Restricted or Control Stock**"). Avalon requests that Clients who hold securities subject to such restrictions inform Avalon of any affected positions, which will be segregated in a Restricted or Control Stock Account. Avalon will sell such shares only upon receipt of such instructions from the Client. Avalon does not charge an additional fee for this Account.

### **Margin Account**

Avalon will assist in opening a separate, non-discretionary Margin Account for Clients who wish to trade on a margin basis. Avalon does not charge an additional fee for this Account.

### **Alternative Investment Account**

Avalon clients can have an account holding one or more of the Avalon Private Funds or Private Funds. Such an account will be made on separate written instructions. The terms of an individual alternative investment will be governed by the agreement relating to such investment. Avalon does not charge an additional fee for this Account, except for those Accounts holding interests in AIP.

## **ADDITIONAL SERVICES AVAILABLE TO PRIVATE CLIENTS**

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### **CONSOLIDATED REPORTING SERVICES**

Upon a Private Client's request, Avalon reports on assets not held in an Avalon Account. Avalon provides manual tracking of such assets for informational purposes only and is not responsible for investment decisions related to such assets. Avalon will manually enter information about these assets from statements provided by the Private Client periodically (usually quarterly or annually), as agreed with the Client. Avalon meets with Clients to review these investments at the Client's request.

### **AVALON FAMILY OFFICE**

At a Private Client's request, Avalon provides additional investment advisory services on investment accounts, including those accounts not managed by Avalon. These services include:

- Advise and assist in the development of an investment policy statement including the determination of short- and long-term investment goals, downside risk tolerance, target returns and asset allocation ranges.
- Provide multi-manager advice based solely on information that is readily accessible through public sources or provided to Avalon by the Private Client for this purpose. The Private Client will make the final decision whether to engage any investment manager.
- Provide advice regarding the timing of an investment in various asset classes as outlined in the investment policy statement.
- Provide advice regarding rebalancing strategies and tactical shifts in the asset allocation.
- Provide consolidated reports of investments and performance measurement based on information supplied by the Client.
- Establish and maintain document storage systems.
- Coordinate with third-party providers (tax professionals, estate attorneys, etc.) as needed.

### **SUB-ADVISORY/WRAP/SEPARATE MANAGED ACCOUNT PROGRAM ENGAGEMENTS**

#### **Sub-advisory Engagements**

Avalon also serves as a sub-advisor to unaffiliated registered investment advisors per the terms and conditions of a written Sub-advisory Agreement. With limited exception, the unaffiliated investment advisors that engage Avalon's sub-advisory services will maintain both the initial and ongoing day-to-day relationship with the underlying client, including initial and ongoing determination of client suitability for Avalon's designated investment strategies.

If the custodian/broker-dealer is determined by the unaffiliated investment advisor, Avalon will be unable to negotiate commissions and/or transaction costs, and/or seek best execution by selecting broker-dealers to execute client transactions that offer better pricing or execution quality. As a result, a client could pay higher commissions or other transaction costs or greater spreads or receive less favorable net prices on transactions than would otherwise be the case through alternative clearing

arrangements recommended by Avalon. Higher transaction costs adversely impact account performance.

### **Wrap/Separate Managed Account Program Engagements**

If Avalon is engaged to provide investment advisory services as part of an unaffiliated wrap-fee program, Avalon will be unable to negotiate commissions and/or transaction costs. Under a wrap program, the wrap program sponsor arranges for the participant to receive investment advisory services, the execution of securities brokerage transactions, custody and reporting services for a single specified fee. Participation in a wrap program could cost the participant more or less than purchasing such services separately. If Avalon is engaged to provide investment advisory services as part of an unaffiliated managed account program/platform, Avalon will likewise be unable to negotiate commissions and/or transaction costs and/or seek best execution. The program sponsor will determine the broker-dealer through which transactions must be effected and the amount of transaction fees and/or commissions paid by the participant investor accounts.

Please note: With limited exception, in these types of engagements the unaffiliated investment advisors that engage Avalon's services will maintain both the initial and ongoing day-to-day relationship with the underlying investor, including initial and ongoing determination of the investor's suitability for Avalon's designated investment strategies. In addition, since the custodian/broker-dealer is determined by the unaffiliated program/platform sponsor, Avalon will be unable to negotiate commissions and/or transaction costs, and/or seek best execution by selecting broker-dealers to execute client transactions that offer better pricing or execution quality. As a result, the investor could pay higher commissions or other transaction costs or greater spreads or receive less favorable net prices, on transactions than would otherwise be the case through alternative clearing arrangements recommended by Avalon. Higher transaction costs adversely impact account performance.

### **MATTERHORN MODEL PORTFOLIO RELATIONSHIPS**

Matterhorn seeks to enter into agreements with various independent and unaffiliated investment advisors, broker-dealers, wrap-program sponsors, asset model platforms and other financial firms (collectively referred to as "**Financial Firms**"). These Financial Firms are solicited to engage Matterhorn to provide model portfolio investment recommendation services.

Participants in a Financial Firm's programs whose accounts are managed using a Matterhorn model usually must complete account documentation with the Financial Firm and, if the Financial Firm does not act as custodian for the program, a custodian. The terms and conditions of these arrangements vary, including the fees paid to, and services provided by or through, the Financial Firm, and contact between Matterhorn and such clients will typically take place, if at all, through the relevant intermediary. The Financial Firm maintains the sole responsibility to implement the model portfolio and chooses to modify or reject a model recommendation provided by Matterhorn. Participants in these programs are not clients of the Firm.

## CLIENT ASSETS UNDER ADVISEMENT

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At December 31, 2019, the Firm had \$8.975 billion under advisement. This includes: (1) \$7.130 billion of discretionary assets; (2) \$1.310 billion of non-discretionary assets; and (3) \$0.535 billion of assets invested in Private Funds or separately managed accounts which are not under Avalon's direct management. This latter category includes circumstances where a qualified Private Client has invested in a Private Fund or established a separately managed account based on advice from the Firm's Client Advisors.

## ITEM 5 - FEES AND COMPENSATION

Fees for Private Clients depend, in part, upon whether the client chooses an allocation across asset classes and pays the Advisory Fee (as defined below) and fees for Avalon Private Funds and Private Funds (a "Product Fee") or chooses a single asset class and pays one or more Product Fees. As noted above, Avalon also advises Private Clients on an asset allocation in light of that person's circumstances, which impacts the total fees paid by each Private Client. A client that engages Matterhorn for model portfolio services will pay fees to Matterhorn as described below under "Product Fee." Fees related to Specialty Accounts are also described below. Avalon's Private Client contracts allow for termination without penalty upon 30 days written notice, or as otherwise stated in the contract.

### AVALON ADVISORY FEE

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Recognizing the advisory-oriented nature of our services for many of our clients, we instituted the Avalon Advisory Fee ("**Advisory Fee**"). Avalon generally manages assets for clients seeking discretionary advisory services. We have an experienced team of Investment Management professionals, including Portfolio Managers and a Chief Economist, who work cooperatively with our Client Advisory teams in recommending and implementing asset allocations. Each client is offered personalized asset allocation recommendations and investment management services based on an analysis of the client's financial circumstances, income requirements, risk tolerance, investment objectives, and other pertinent factors. The fee is based on a percentage of assets in the Accounts, not including allocations to existing Avalon Private Funds or Private Funds.

In addition to the Advisory Fee, Avalon will charge a product fee that will vary by investment strategy and will range from 0.05% to 0.50%. Further, mutual funds and exchange traded funds ("**ETFs**") inherently contain additional expenses. Please see "Product Fees" immediately following this section for additional details.

Below is the standard Advisory Fee schedule:

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<b>Advisory Fee for Client Portfolios Greater than \$5 Million</b>	
<u>Asset Level</u>	<u>Annual Fee</u>
First \$10,000,000	0.60%
\$10,000,001 to \$25,000,000	0.50%
\$25,000,001 to \$50,000,000	0.40%
\$50,000,001 to \$100,000,000	0.30%
Above \$100,000,000	0.20%

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However, fees are negotiable depending on the circumstances of the Private Client, the scope of services provided, size of account(s), service levels, reporting and other arrangements as agreed with specific Private Clients. In those instances, a Private Client pays more or less than the fees in our standard fee schedules, and more or less than similar Private Clients. See "Fee Dispersion" later in this section.

Avalon's stated minimum investment is \$5 million. From time to time, we will waive the minimum and accept clients of smaller assignments depending on the client relationship, client service requirements and other circumstances. Accounts below the minimum will be subject to a \$35,000 minimum advisory fee plus additional product fees. Once an account exceeds \$5 million, it will be subject to the stated fee schedule above. Please also see "Fee Dispersion" later in this section.

## **PRODUCT FEES**

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Avalon has separate product fee schedules for Clients who are not subject to the Advisory Fee. In general, the product fee schedules described below apply to legacy clients prior to 2019 as well as to Clients who are invested in only one portfolio strategy at Avalon or are primarily fixed income clients. Avalon's product-based fees are described generally below and/or in the governing documents and PPM of each Avalon Private Fund or Private Fund. Except as otherwise negotiated with the Client, or as described below, fees are calculated based upon the aggregate market value of all assets under management within the Client's Account(s), including allocations to cash and accrued interest. Avalon can group multiple Accounts of a Client (or group of Clients, such as a family) for fee calculation and billing purposes, and could, but is not required to, negotiate fee types, rates or breakpoints that apply based on assets of the relationship.

Fees change over time and different fee schedules apply if Avalon accepts Clients other than Private Clients. As discussed below, fees for Accounts are negotiable. Fees for Avalon Private Funds and Private Funds generally are not negotiable. Nevertheless, Avalon reserves the right to waive or

reduce the fees charged to Investors in an Avalon Private Fund, in its sole and absolute discretion; Avalon also has negotiated with the advisor of a Private Fund to waive or reduce the fees charged to investors in the Private Fund.

Specifically, fees usually are waived or reduced for investments made by, or on behalf of, Avalon and its employees, principals, partners or affiliates, or former principals. Thus, some Clients or Investors will pay more or less than other Clients or Investors for the same or similar management services depending, for example, on the Account inception date, the number (or value) of related Accounts, the total assets under management by Avalon, and fee negotiation or fee waivers, if any.

Fees will be assessed and paid by deduction from an account quarterly in arrears or on such other basis as Avalon and the Client subsequently agree in writing. Fees for partial periods will be assessed *pro rata*.

Fees for Avalon Private Funds and Private Funds are assessed and paid as described in the governing documents and PPM of the applicable fund. Avalon also charges the investor quarterly in arrears for advisory services provided to Avalon Private Clients for investments in AIP which are in addition to the fees charged by AIP. For additional information, please see Fee Schedules – Avalon Private Funds later in this Item 5 – Fees and Compensation.

Fees for model portfolios offered by Matterhorn are assessed quarterly in arrears. Fees for partial periods are assessed *pro rata*. Fees for model portfolios are typically lower due to the nature of the services provided by Matterhorn.

## **FEE DISPERSION**

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Avalon, in its sole discretion, waives or modifies its minimum asset level, charges a lesser Advisory Fee, charges a flat fee or waives its fee entirely based upon certain criteria (i.e., anticipated future earning capacity, anticipated future additional assets, the dollar amount of assets to be managed, related accounts, account composition, the complexity of the engagement, grandfathered fee schedules, Avalon employees and family members, courtesy accounts, competition, negotiations with client, etc.)

Please note: As a result of the above, similarly situated Private Clients pay different fees. In addition, similar advisory services could be available from other investment advisers for similar or lower fees.

Any questions: Avalon's CCO remains available to address any questions that a Client or prospective client has regarding Advisory Fees.

## **FEE SCHEDULES**

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As noted above, fees for Private Clients depend, in part, upon whether the client chooses an allocation across asset classes and pays the Advisory Fee and Product Fees or chooses a single asset class and pays one or more Product Fees. A Private Client's Accounts are allocated and classified as either Fixed Income or Avalon Equity, as described below. Fee schedules and minimum investments for the various accounts are described below:

## FIXED INCOME

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

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

Fees for these accounts are charged quarterly in arrears.

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

## TOTAL MARKET FIXED INCOME

Fees for Total Market Fixed Income Accounts are as follows; for the purpose of computing breakpoints for the cash and fixed income Accounts, Total Market Fixed Income Account assets are not included in the asset size determination or fee calculation:

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

Fees for these Accounts are charged quarterly in arrears.



## HIGH INCOME MUNICIPAL

Fees for High Income Municipal Accounts are as follows; for the purpose of computing breakpoints for the cash and fixed income Accounts, High Income Municipal Account assets are not included in the asset size determination or fee calculation:

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

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

## AVALON EQUITY

Fees for equity accounts are as follows; for fee purposes, equity accounts are combined when computing breakpoints:

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

Fees for these accounts are charged quarterly in arrears.

## OTHER TYPES OF FEES OR EXPENSES

Clients generally are responsible for certain other fees and expenses (e.g., custodial fees, brokerage commissions, and similar charges) associated with each of the Account types. Please see Item 12 – Brokerage Practices below for information about brokerage commissions and other transaction costs. If Client assets are invested in a pooled vehicle such as a mutual fund (including money market funds for cash management purposes), ETF, or Private Fund, the Client will also bear the additional fees and expenses assessed by such funds with respect to the Client's investment, including advisory fees ("**Underlying Fund Fees and Expenses**"). Underlying Fund Fees and Expenses compensate the manager and other service providers of the fund and/or arise in connection with

the operation and investment activities of the fund. These are separate from, and in addition to, the fees paid to Avalon for selecting and monitoring those investments. Avalon's Advisory Fees will not be reduced, nor any fees payable to Avalon credited, as a result of the Underlying Fund Fees and Expenses borne by a client in a mutual fund, Private Fund or ETF. Underlying Fund Fees and Expenses are fully disclosed in each fund prospectus or PPM which is sent to each Client by the authorized party of the pooled vehicle.

## PRIVATE FUNDS

As indicated above, Avalon can offer certain Private Clients the investment services provided by other investment managers, either through 1) a defined series of that manager's fund; 2) a limited partnership where Avalon is an affiliate of the general partner; 3) a separate account; or, 4) direct participation in the Fund as arranged through AWM. Fees and expenses of those Private Funds are described to Investors, in detail, in each Private Fund's PPM. Private Fund fees vary depending on the nature of the services provided and the investment strategy used. Components of a Private Fund fee calculation could include (among others):

- *management fees*, based on a percentage of assets under management (usually 1.50% per annum)
- *administrative fees*, based on a percentage of assets under management (usually 0.00% to 0.10% per annum)
- *incentive or performance compensation*, based on an allocation of additional units of interest in the Private Fund, equal to a percentage of capital appreciation (usually 15% to 20% per annum)
- *additional sales compensation*, including that paid to AWM as a broker-dealer for placing Clients in specific Private Funds

See also Item 10 - Other Financial Industry Affiliations and Activities. Fees are generally paid in arrears and on a monthly, quarterly or annual basis, depending upon the specific contractual arrangements with each Private Fund. Asset values are based on market prices (as determined by the Private Fund's custodian or independent pricing service) on the relevant valuation date (usually the close of market on the last business day of the month, quarter or year.) Fees for a partial period are assessed *pro rata*. Fee structures vary in Private Funds. Not all Private Funds include each type of fee or compensation.

Fees and expenses with respect to a separate account advised by another investment manager can vary substantially. Clients should consult the other investment manager's Form ADV, Part 2A for a discussion of the fees and expenses relevant to that other investment manager's services.

## AVALON PRIVATE FUNDS

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

Avalon Carlyle will pay the Management Fee quarterly in advance commencing on April 1, 2013, and continuing through March 31, 2019, as follows: (i) 1.00% of the commitments made by limited partners holding class A interests; (ii) 0.75% of the commitments made by limited partners holding class B interests; and (iii) 0.50% of the commitments made by limited partners holding class C interests. Limited partners holding class D interests will not be charged a Management Fee. All operating costs of Avalon Carlyle, other than legal, audit, tax preparation expenses and third-party expenses directly related to the administration of Avalon Carlyle, as reasonably determined by the general partner, and costs and expenses related to the investment activities of Avalon Carlyle, will be borne by the general partner and are intended to be covered in part by the Management Fee. Avalon Carlyle will pay all costs and expenses incurred relating to its organization and establishment and the costs incurred in connection with the initial offering of interests ("**Organizational Expenses**") of Avalon Carlyle. Organizational Expenses of Avalon Carlyle were amortized for 36 months from the date Avalon Carlyle commenced operations. Please refer to Avalon Carlyle's documents for details concerning the partnership's payment of fees and expenses.

AGRA will pay the Management Fee quarterly in advance commencing on May 1, 2014, and continuing through April 30, 2020, as follows: (i) 1.00% of the commitments made by limited partners holding class A interests; (ii) 0.75% of the commitments made by limited partners holding class B interests; (iii) 0.50% of the commitments made by limited partners holding class C interests; and (iv) 0.35% of the commitments made by limited partners holding class D interests. Limited partners holding class E interests will not be charged a Management Fee. All operating costs of AGRA, other than legal, audit, tax preparation expenses and third-party expenses directly related to the administration of AGRA, as reasonably determined by the general partner, and costs and expenses related to the investment activities of AGRA, will be borne by the general partner and are intended to be covered in part by the Management Fee. AGRA will pay all Organizational Expenses. Organizational Expenses of AGRA were amortized for 36 months from the date AGRA commenced operations. Please refer to AGRA's documents for details concerning the partnership's payment of fees and expenses.

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

APEF will pay the Management Fee quarterly in arrears on the last day of March, June, September, and December each year. The fee will be calculated as of the last day of each such calendar quarter, commencing on April 1, 2017, and continuing through March 31, 2027, as follows:

- (i) Class A Limited Partners: The Management Fee shall be equal to the sum of (a) 0.65% of the portion of the commitments made by class A limited partners that is attributable to the partnership's underlying commitment to the Bayou City Fund, and (b) 0.65% of the aggregate capital contributions made by class A limited partners that are attributable to funding co-investments (*i.e.*, charged at the time of investment.)
- (ii) Class B Limited Partners: The Management Fee shall be equal to the sum of (a) 0.50% of the portion of the commitments made by class B limited partners that is attributable to the partnership's underlying commitment to the Bayou City Fund, and (b) 0.50% of the aggregate capital contributions made by class B limited partners that is attributable to funding co-investments (*i.e.*, charged at the time of investment.)
- (iii) Class C Limited Partners: Class C limited partners shall not be charged a Management Fee. (Class C Interests are issued to each limited partner that is a principal, member, director or employee of the general partner, the investment manager, or their respective affiliates.)

All operating costs of APEF, other than legal, audit, tax preparation expenses and third-party expenses directly related to the administration of APEF, as reasonably determined by the general partner, and costs and expenses related to the investment activities of APEF, will be borne by the general partner and are intended to be covered in part by the Management Fee. APEF will pay all Organizational Expenses. Organizational Expenses of APEF will be amortized over a period up to 36 months from the date APEF commences operations; provided, that, if such amortization would result in a qualification to the partnership's audit opinion, the general partner can, in consultation with the Partnership's auditors, select an alternative manner of treating such expense. Please refer to APEF's documents for details concerning the partnership's payment of fees and expenses.

AIP differs in structure and management from the Avalon Private Funds described above. In return for the Cynosure's services as sub-advisor and administrator, AIP will pay Cynosure a fee and a performance incentive comprised of a share of the class net profits of each AIP class. The performance incentive is calculated class by class, and not on a pooled, basis. The management fees vary from class to class. The specific fee will be set forth in the class designation document for each particular investment class in AIP. Avalon's expectation is that the fee and carry burden of an investment in an AIP class will generally be less than other pricing in the alternative investment industry so that investors are not disadvantaged even when fees and carry charged at an underlying Fund Investment are taken into account.

Avalon Clients will pay a fee, charged quarterly in arrears, for advisory services provided by Avalon for investments in AIP. The advisory fee rate for AIP is based on the client's existing equity fee rate, the rate set forth for a particular class designation, or as otherwise agreed between the Client and Avalon. As a result, a client investing in an AIP class is likely to pay more (or less) in advisory fees attributable to that class than another client investing the same amount in the same class. This advisory fee is in addition to the fees charged by the fund.

Since Avalon Clients already pay an Advisory Fee to Avalon, Avalon does not expect to receive any Management Fee from Avalon Clients that invest in AIP. However, Avalon reserves the right to receive a management fee from AIP in respect of an investor in a class so long as the aggregate of all fees borne by the investor in respect of that class, other than the advisory fee such investor pays

directly to Avalon, do not exceed 2% per annum of the amount such investor invests in or commits to the class.

Each AIP investor in a newly created class is typically required to bear a one-time organizational cost expense as set forth in the applicable class designation. The charge will be the same in the AIP class as it is in the CIP class that co-invests with it. To the extent set forth in the applicable class designation, each AIP investor is typically required to bear a one-time fee (not to exceed 60 bps) payable to Cynosure for its services in evaluating, structuring and funding the underlying Fund Investment or Direct Investment associated with the class. The charge will be the same in the AIP class as it is in the CIP class that co-invests with it. The aggregate amount of the annual Management Fee, any organizational expense fee and the closing or alternative fee will not exceed 2% of the AIP Investor's investment in (or commitment to) the class.

Please refer to AIP's documents for details concerning the fund's payment of fees and expenses.

## **SPECIALTY ACCOUNTS**

Please see "Client Advisory Services" above under "Advisory Services" for details of definitions of these Account types.

Fees for Funding Account (Non-Discretionary or Discretionary); Permanent Cash Reserve Account; Client Directed Account; Restricted or Control Stock Account; Alternative Investment Account;

No management or performance-based fee is charged by Avalon for these types of specialty accounts.

Fees for Margin Accounts:

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

Fees for Client Picks Accounts:

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

## **ADDITIONAL SERVICES AVAILABLE TO PRIVATE CLIENTS**

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### **CONSOLIDATED REPORTING SERVICES**

Private Clients investing in Avalon Accounts can request that Avalon report on assets not held in any Avalon Account. Avalon does not charge a fee for reporting on such assets.

### **AVALON FAMILY OFFICE FEES**

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

## SPECIAL FEE ARRANGEMENTS

Avalon reserves the right, in its sole discretion, to negotiate and to charge different fees for certain Accounts based on the Client's 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. As an example, fees for certain non-U.S. Clients are higher due to increased administrative costs and requirements. The maximum fee charged by Avalon is 2%.

## INVESTMENT MANAGEMENT SERVICES

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### SUB-ADVISORY SERVICES AND MANAGED ACCOUNT PROGRAMS FEES

The total amount of fees paid by Clients receiving sub-advisory services from Avalon through these programs varies. Where an asset-based fee is paid to the primary advisor, the total fee (including both the advisor's and Avalon's fee) will not be less than the advisory fee which that Client would have paid to Avalon for its advisory services absent the sub-advisory relationship. In these cases, Avalon generally is paid a fee by the primary advisor in accordance with the fee schedules above. Avalon can offer a discounted fee schedule when the primary advisor assumes certain administrative functions that would otherwise be provided by Avalon. These fees can be paid either in advance or arrears. If an arrangement is terminated during a payment period, a *pro rata* adjustment will be made to ensure that fees are paid only for the period in which assets were under Avalon's management. The fee paid to a primary advisor will sometimes qualify the Client for a reduced or waived commission rate for transactions executed through the primary advisor or an affiliate of the advisor (the "**preferred broker**"). In these circumstances, the Client typically directs Avalon to execute transactions through the preferred broker, subject to Avalon's duty to seek best execution. In the latter circumstance, Avalon will consider the costs that would be associated with executing away from the preferred broker, in addition to the factors described in Item 12 - Brokerage Practices.

### SOLICITATION AND CLIENT SERVICING ARRANGEMENTS

From time to time, Avalon will enter into a written agreement with another registered investment advisor (the "**other advisor**") who Avalon believes offers beneficial investment management services and expertise to an Avalon Client. In such case, Avalon and the other advisor agree to the solicitation activities of Avalon. These activities include consultations about potential and actual introductions of Clients to the other advisor. In most cases, Avalon will continue to provide "**Client Servicing**", which includes providing the Client with periodic reports, communicating with the Client regarding the other advisor's investment management services, and providing such other assistance that serves to promote the continual mutual servicing of the Client. In consideration of the solicitation and servicing, Avalon shares in a portion of the investment management and/or performance fees paid to that manager by the Client. Avalon provides a disclosure statement clarifying the fees and relationship between the two advisors.

## VALUATION

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Avalon is compensated based on the market value of Accounts and the High Income Municipal Fund. A related entity is also compensated based on performance for some Private Funds not managed by Avalon. Avalon, or a related or affiliated entity, will benefit from an increase in securities valuations over market value (or fair value where market values are unreliable).

Additionally, where an Investor purchases or redeems interests in a Private Fund, or the High Income Municipal Fund at a net asset value ("**NAV**") that is impacted by a discrepancy in valuation, such Investor will receive a greater or lesser interest in (or increased or decreased redemption proceeds from) such Private Fund than would have been the case absent the discrepancy. Similarly, existing and continuing investors will suffer dilution or enjoy accretion because of such purchases or redemptions.

Typically, values for listed investments represent the last reported sales price, on the relevant trading market, on the day of valuation. If no sales occurred on such day, the valuation will typically be the "bid" price for long holdings and the "ask" price for short holdings. Avalon generally invests in assets with readily ascertainable market values or reliable valuations. In most cases, valuations determined from published market closing prices and/or provided by custodians or independent pricing services are used in calculating Advisory Fees and for reporting purposes. Rarely, Avalon is unable to obtain pricing from these sources.

Where such pricing sources are unavailable, Avalon seeks relevant asset values using methods determined by Avalon to elicit "fair value" for the investment. This process mitigates the conflicts and potential for material pricing discrepancies for Account assets and ensures that such assets are valued in good faith and are as accurate as is reasonably practicable. Absent reliable valuations from market sources, a custodian, or independent pricing service, (e.g., where securities are illiquid, thinly traded or otherwise difficult to value due to market disruptions, loss of pricing coverage or market-making activities by broker-dealers or pricing services, distressed asset sales, extreme market volatility or other factors Avalon determines will diminish accuracy, timeliness or reliability of pricing information), Avalon usually will attempt to ascertain a price by obtaining quotes from one or more brokers or dealers.

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

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

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

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

Avalon generally does not charge performance-based fees on its Client Accounts but charges such fees on Private Funds and Avalon Private Funds as outlined in each fund's documents. On an exception basis, a performance-based fee can be negotiated with terms dependent upon the particular investment requirements of the Client. The Firm occasionally recommends investments in Private Funds and Avalon Private Funds which charge performance-based fees.

Because Avalon recommends both accounts which pay performance-based fees and those that do not, the Firm has an incentive to favor its performance-paying accounts over those that do not. This conflict is mitigated through Avalon's policy and practice of treating all Client Accounts fairly and equitably over time and through attention to each Account and Avalon Private Fund's investment objective. Performance fees also create an incentive for a manager to recommend investments that are relatively more risky than those which might have been recommended under a purely asset-based fee structure.

## ITEM 7 - TYPES OF CLIENTS

Avalon provides investment advisory services to:

- Individuals
- High net worth individuals, trusts, and estates
- Banking or thrift institutions
- Pooled investment vehicles (other than investment companies)
- Pension and profit sharing plans
- Charitable organizations
- Corporations and other businesses
- Other investment advisors
- Insurance companies

Avalon prefers to establish relationships of at least \$5,000,000 to act as the investment manager for a Client. This preference is separate from any minimum account sizes described above.



Additionally, certain products have minimums. The Private Funds typically require a minimum initial investment. The minimum initial investment requirement for the High Income Municipal Fund is \$250,000. Each of Avalon Carlyle, AGRA and APEF required a minimum aggregate commitment of \$500,000. AIP requires a minimum commitment of \$200,000. In addition, investors must meet the requirements for “accredited investors” under the 1933 Act and in some cases “qualified clients” under the Advisers Act and will also be required to be “qualified purchasers” under the 1940 Act and/or “qualified eligible persons” under regulations of the Commodity Futures Trading Commission. Avalon can waive any such minimums.

Lower minimums apply where Avalon's services are provided through a sub-advisory relationship, managed account program, or through a model portfolio relationship offered by Matterhorn.

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

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

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

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

### METHODS OF ANALYSIS

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Avalon uses a combination of analysis types to evaluate investments for Client Accounts:

- **Fundamental** -- Analysis of financial attributes of a company, such as revenue growth, earnings growth, industry dynamics, and product or service evaluation
- **Technical** – Price, volume and chart analysis which assumes past performance can be used to predict future performance
- **Valuation** – Price/earnings ratios, price/book ratios, debt-to-equity, debt coverage, and value relative to industry peers

Sources of information used in Avalon's analysis:

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

Avalon investment strategies used to implement investment advice:

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

## INVESTMENT STRATEGIES

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Avalon employs a fundamental, long-term approach in evaluating securities, seeks a return reflective of the underlying asset class for each Account, and (where possible) aims to maintain lower volatility. Securities selected usually are expected to be held for long-term capital gains, with the aim of providing higher after-tax returns. Avalon generally seeks to maintain fully invested Accounts over a typical market cycle but raises cash reserves during periods of perceived higher market risk. As such and for temporary defensive purposes, the Firm can hold a significant portion of an Account's assets in cash or cash equivalents.

Avalon can suggest that Clients invest in private funds, some of which are managed by unaffiliated managers (*i.e.*, the Private Funds) and some of which are managed by Avalon (*i.e.*, the Avalon Private Funds). Avalon generally does not use hedging, options or derivatives and leverage to achieve investment objectives.

Investment strategies of each of the discretionary Accounts follow:

### FIXED INCOME

- **Avalon Cash Account** will be invested in short-term tax-exempt or taxable securities with a maximum maturity of 18 months. From time to time, at the Firm's discretion, a significant portion of the funds will be invested in par-reset securities with, at most, monthly liquidity. All securities will be investment-grade or the short-term equivalent of investment-grade at the time of purchase and the portfolio will target an average credit quality of AA- or better. Pre-

refunded municipal bonds will typically be considered AAA rated. In addition, the Firm can utilize a combination of short-term mutual funds and exchange traded funds limited to a two-year duration target or less. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.

- **Avalon Enhanced Liquidity Short Duration Account** will be invested in tax-exempt or taxable bonds, depending on market conditions. The strategy will invest at least 80% of its value in high-grade securities and at all times will invest 100% of its value in investment-grade securities. An investment is considered high grade if, at the time of purchase, it is rated at least AA- (or its equivalent) by at least one nationally recognized statistical rating organization ("NRSRO") and is considered investment grade if, at the time of purchase, it is rated at least BBB- (or its equivalent) by at least one NRSRO. Pre-refunded municipal bonds will typically be considered AAA rated. The strategy will invest 80% of its value in securities with a maximum maturity of 18 months and the maximum maturity of any security in the strategy will not exceed 5 years. In addition, the Firm can utilize a combination of short-term mutual funds and ETFs limited to a two-year duration target or less. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Short Duration Fixed Income Account** will be invested in tax-exempt or taxable bonds, depending on market conditions. The strategy will invest 100% of its value in investment grade securities. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- (or its equivalent) by at least one NRSRO or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Pre-refunded municipal bonds will typically be considered AAA rated. The strategy will invest 80% of its value in securities with a maximum maturity of 3 years and the maximum maturity of any security in the strategy will not exceed 7 years. In addition, the Firm can utilize a combination of short-duration mutual funds and ETFs. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon High Grade Taxable Fixed Income Account** will be invested in high-grade fixed income securities whose interest payments are subject to United States federal income tax. An investment is considered for this strategy if, at the time of purchase, it is rated at least A- (or its equivalent) by at least one NRSRO. The portfolio will target an average credit quality of AA- or better. Notwithstanding the foregoing, subject to certain minimums and upon the discretion of the Investment Management team, the strategy can also be invested in one or more investment-grade diversified mutual funds and/or ETFs. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon High Grade Tax Exempt Fixed Income Account** will be invested in high-grade municipal bonds whose interest payments are free from United States federal income tax. The strategy will invest in high-grade securities at the time of purchase. An investment is considered high grade if, at the time of purchase, it is rated at least AA- (or its equivalent) by at least one NRSRO or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Notwithstanding the foregoing, subject to certain minimums and upon the discretion of the Investment Management team, the strategy can also be invested in one or more investment-grade diversified mutual funds and/or ETFs. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.

- **Avalon Taxable Fixed Income Account** will be invested in investment-grade fixed income securities whose interest payments are subject to United States federal income tax. Investment-grade municipal bonds, whose interest payments are free from United States federal income tax can be held, but generally are excluded as long-term holdings. The strategy will invest in investment-grade securities at the time of purchase. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- (or its equivalent) by at least one NRSRO or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Notwithstanding the foregoing, subject to certain minimums and upon the discretion of the Investment Management team, the Account can also be invested in one or more investment-grade diversified mutual funds and/or ETFs. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Tax Exempt Fixed Income Account** will be invested in investment-grade municipal bonds whose interest payments are free from United States federal income tax. The strategy will invest in investment-grade securities. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- (or its equivalent) by at least one NRSRO or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Notwithstanding the foregoing, subject to certain minimums and upon the discretion of the Investment Management team, the strategy can also be invested in one or more investment-grade diversified mutual funds and/or ETFs. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Total Market Fixed Income Account** will be invested in USD-denominated non-equity securities, commonly referred to as “fixed income.” The strategy usually will invest at least 60% of its value in investment-grade securities, although market conditions could warrant lower levels of investment-grade exposure from time to time. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- (or its equivalent) by at least one NRSRO or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Upon the discretion of the manager, the strategy can also be invested in one or more diversified mutual funds and/or ETFs, including inverse ETFs. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon High Income Municipal Account** will invest primarily in tax-exempt bonds. The strategy’s investment objectives are to provide income free from federal taxation and to provide potential taxable capital appreciation. The strategy will invest in debt securities rated investment grade or below investment grade, or non-rated debt securities whose underlying fundamentals are deemed by the portfolio managers to be creditworthy. Upon the discretion of the portfolio managers, the Account can also be invested in one or more diversified funds or ETFs, the diversified nature of which could result in the strategy being exposed, through its interest in such fund, to non-rated securities, below investment-grade rated or investment-grade rated securities. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns. When deemed appropriate, the portfolio managers can (but will not necessarily) use leverage and/or derivatives to offset or establish positions in the Account, but in no event will leverage exceed 10%.
- **Avalon Custom Fixed Income Account** will be invested within client-mandated guidelines that draw on the capabilities of the Investment Team and could share characteristics with

one or more of the strategies listed above. In addition to the strategies currently being managed, market conditions could, from time to time, warrant the purchase of securities that are opportunistic in nature, without regard to whether the securities exist in any Avalon managed strategies. Each custom Account requires written Investment Guidelines agreed upon by both the Client and Avalon. The strategy can also be invested in one or more investment-grade diversified index funds and/or ETFs. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.

## EQUITY

- **Avalon Smart Beta Account** will be managed in accordance with a master equity portfolio whose investment objective is to provide a stable core U.S. large-cap allocation with a very similar risk profile to the S&P 500 index but with the opportunity to outperform the S&P 500 over the long term by using systematic factor exposures (e.g., Quality, Value, Momentum, and Dividend Growth.) Management does not include the use of derivatives or margin. The portfolio invests primarily in ETFs to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Core Equity Account** will be managed in accordance with a master equity portfolio whose investment objective is long-term capital appreciation. Management does not include the use of derivatives or margin. From time to time the strategy could invest in non-U.S. securities, generally international securities that trade in the United States using American Depositary Receipts.
- **Avalon U.S. Value Equity Account** will be managed in accordance with a master equity portfolio. The value portfolio seeks to hold 15 to 20 securities. The manager uses a rigorous and disciplined process to identify and invest in undervalued U.S. securities that are believed to maximize downside protection and upside appreciation. Emphasis is placed on relative valuation, capital efficiency, balance sheet health, earnings quality, and margins. The underlying companies are domiciled in the U.S.
- **Avalon Equity Income Account** will be managed in accordance with a master equity income portfolio whose investment objective is to generate current yield and long-term capital appreciation. Management does not include the use of derivatives or margin. The income component can come from common stock dividends (including REITs), MLP (Master Limited Partnership) distributions, and ETF dividends. From time to time the strategy could invest in non-U.S. securities, generally international securities that trade in the United States using American Depositary Receipts. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Equity Income (No MLPs) Account** will be managed in accordance with a master equity income portfolio whose investment objective is to generate current yield and long-term capital appreciation. Management does not include the use of derivatives or margin. The income component can come from common stock dividends (including REITs) and ETF dividends. From time to time we could invest in non-U.S. securities, generally international securities that trade in the United States using American Depositary Receipts. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.

- **Avalon Equity Income (No MLPs) Dividend Sweep Account** will be managed in accordance with a master equity income portfolio whose investment objective is to provide a combination of current income and capital appreciation in a portfolio that also offers inflation hedging characteristics. Management does not include the use of derivatives or margin. The income component can come from common stock dividends (including REITs) and ETF dividends. However, dividends will not be reinvested by the portfolio manager, but rather swept to a separate client cash account. From time to time the strategy could invest in non-U.S. securities, generally international securities that trade in the United States using American Depositary Receipts. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon International Value Equity Account** will be managed in accordance with a master equity portfolio. The international value portfolio seeks to hold 25 securities. The manager uses a rigorous and disciplined process to identify and invest in undervalued securities that are believed to maximize downside protection and upside appreciation. Emphasis is placed on relative valuation, capital efficiency, balance sheet health, earnings quality, and margins. The underlying companies are domiciled outside the U.S.
- **Avalon International Equity Account** will be focused on long-term capital appreciation, investing in international equities, including those in emerging markets. Management does not include the use of derivative instruments or currency hedging but will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges and ETFs. The portfolio position sizes generally will range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights generally will not exceed two times the index sector weights or 25% of the portfolio and the minimum market capitalization is a function of liquidity. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon International Equity Income Account** will be focused on both income and long-term capital appreciation, investing in international equities, including those in emerging markets. The Account will be constructed to generate a diversified and growing stream of income. Management does not include the use of derivative instruments or currency hedging but can include writing covered calls if allowed by the Client. Management will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges and ETFs. A minimum of 75% of the portfolio will be invested in common stock, while the remainder can be invested in convertible bonds, preferred stock or investment-grade corporate bonds. The portfolio position sizes generally will range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights generally will not exceed two times the index sector weights or 25% of the portfolio. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Global Equity Account** will be focused on long-term capital appreciation, investing in both U.S. and international equities, including those in emerging markets. Management does not include the use of derivative instruments or currency hedgin but will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges and ETFs. The portfolio position sizes generally will range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights



generally will not exceed two times the index sector weights or 25% of the portfolio, and the minimum market capitalization depends on liquidity. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.

- **Avalon Global Equity Income Account** is a long-only investment strategy focused on both income and long-term capital appreciation, investing in both U.S. and international equities, including those in emerging markets. The strategy will be constructed to generate a diversified and growing stream of income. Management does not include the use of derivative instruments or currency hedging but can include writing covered calls if allowed by the Client. Management will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges and ETFs. A minimum of 75% of the portfolio will be invested in common stock, while the remainder can be invested in convertible bonds, preferred stock or investment-grade corporate bonds. The portfolio position sizes generally will range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights generally will not exceed two times the index sector weights or 25% of the portfolio. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Large Cap Growth Account** is a long-only investment strategy focused on growth-oriented companies and long-term capital appreciation. It is only invested in U.S. equities, including those of U.S. corporations incorporated outside the United States. This strategy does not use derivative instruments. The strategy generally holds fewer than 40 positions ranging from 1% to 8% in size, and the sector weights generally will not exceed two times market weights.
- **Avalon Quality Growth Account** will be managed in accordance with a diversified master equity portfolio of 40 – 60 mostly large- and mid-cap stocks traded on a major U.S. stock exchange, in industries that Avalon believes are attractive with strong market positions, above-average growth in earnings and cash flow, and attractive financial and valuation metrics. Taxable accounts can harvest losses by holding ETFs or cash until the “wash sale” period expires. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon SMID Cap Equity Account** will be managed in accordance with a master equity portfolio whose investment objective is long-term capital appreciation through investment in small- and mid-capitalization companies. Management does not include the use of derivatives or margin. From time to time the strategy can invest in non-U.S. securities, generally international securities that trade in the United States using American Depositary Receipts.
- **Avalon Concentrated Equity Account** will be managed in accordance with a master equity portfolio whose objective is long-term capital appreciation. The Investment Team attempts to fulfill this objective through investment in a relatively concentrated number of equity securities, as well as the tactical use of cash. At certain times, the strategy may be 100% invested, while at other times it may be 100% cash. Management does not include the use of derivatives or margin. From time to time the strategy can invest in non-U.S. securities,

generally international securities that trade in the United States using American Depositary Receipts.

- **Avalon MLP Account** will be managed as a long-only portfolio focused on the production, transportation, refining and marketing of North American natural resources utilizing exposure to the securities of Master Limited Partnerships (MLPs, which are partnerships that produce any income and/or gains derived from the exploration, development, mining or production, processing, refining, or transportation (including pipelines transporting gas, oil, or products thereof) of any mineral or natural resource that are qualified as such under Section 7704 (d)(1)(e) of the Internal Revenue Code). The primary objective of the strategy is total return with a heavy emphasis on income generation. The strategy is structured to invest primarily in the securities of energy-based MLPs but does maintain the flexibility to invest in other energy-related securities at the manager's discretion.
- **Avalon Diversified ETF Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The strategy tactically allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the investment environment, and the relative attractiveness of various asset classes in its universe. Based on its assessment of the investment environment by the Investment Team, equity exposure in the strategy is generally expected to range from 80% to 100%. The portfolio invests primarily in ETFs to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Diversified ETF 2 Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The strategy tactically allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the investment environment, and the relative attractiveness of various asset classes in its universe. Based on its assessment of the investment environment by the Investment Team, equity exposure in the strategy is generally expected to range from 20% to 100%, and the portfolio could periodically hold high levels of cash and/or fixed income investments for defensive purposes. The strategy invests primarily in ETFs to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns. The strategy is primarily intended for use by IRAs, other tax-deferred accounts, or tax-exempt accounts.
- **Avalon Diversified ETF 3 Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The strategy tactically allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the investment environment, and the relative attractiveness of various asset classes in its universe. Based on its assessment of the investment environment by the Investment Team, equity exposure in the strategy is generally expected to range from 20% to 100%, and the strategy could periodically hold high levels of cash and/or fixed income investments for defensive purposes. The portfolio invests primarily in ETFs to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.



- **Avalon Balanced Taxable Income ETF Account** will be managed in accordance with a master portfolio of ETFs producing taxable income from the bond allocation with the goal of producing attractive risk-adjusted returns. The strategy invests primarily in ETFs and cash in order to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns. The strategy is primarily intended for use by IRAs, other tax-deferred accounts, or tax-exempt accounts.
- **Avalon Balanced Tax Exempt Income ETF Account** will be managed in accordance with a master portfolio of ETFs producing primarily tax-exempt income from the bond allocation with the goal of producing attractive risk-adjusted returns. The strategy invests primarily in ETFs and cash in order to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns. The strategy is primarily intended for use by taxable accounts.
- **Avalon Global Macro Account** will be managed in accordance with a master equity account whose investment objective is to seek and invest in emerging opportunities based on economic data. The Investment Team utilizes a thesis-driven, top-down investment approach driven by a thematic screen for countries, regions, and sectors whose fundamentals are believed to be positioned to benefit from short-, medium- and longer-term economic trends. This will typically be accomplished by between 15-25 positions with a target weighting of 2%-10%. The strategy invests primarily in ETFs to achieve its objectives and can include inverse ETFs and index funds. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Income ETF Account** will be managed in accordance with a master portfolio whose primary investment objective is yield and dividend income with a secondary objective of long-term capital appreciation. The strategy allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the risk factors, and the suitability of various asset classes to achieve the investment objectives. The strategy invests primarily in ETFs to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Growth and Income ETF Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation with yield and dividend income. The strategy allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the risk factors, and the suitability of various asset classes to achieving the investment objective. The strategy invests primarily in ETFs to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Growth ETF Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The strategy allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the risk factors, and the suitability of various asset classes to achieve the investment objective. The strategy invests primarily in ETFs to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.

- **Avalon Aggressive Growth ETF Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The strategy allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the risk factors, and the suitability of various asset classes to achieving the investment objective. The strategy invests primarily in ETFs to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Liquid Alternatives Account** will be managed in accordance with a master portfolio whose investment objective is to provide diversification and risk reduction via liquid exposure to alternative investment strategies using an academically-rigorous and proprietary risk-targeted portfolio construction. The strategy invests primarily in mutual funds and ETFs to achieve its objectives. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon External Manager SMA Account** provides exposure to targeted equity, fixed income or alternative investment strategies through investing in mutual funds or ETFs. Each investment product available was evaluated by Avalon's Due Diligence Committee and approved by Avalon's Investment Policy Committee. Mutual funds are chosen primarily based on the investment process with other considerations including performance, expenses, and tax efficiency. The primary criteria in choosing ETFs, aside from the specific desired market exposure and adequate liquidity to handle asset flows, are low tracking error, low expense ratio, and tax efficiency. These Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.
- **Avalon Asset Allocation Account** provides exposure to targeted equity, fixed income or alternative investment strategies through investing in a separately managed account strategy provided by an external manager. Each external investment strategy available was evaluated by Avalon's Due Diligence Committee and approved by Avalon's Investment Policy Committee. External investment strategies are chosen primarily based on the investment process with other considerations including performance, expenses, and tax efficiency. These strategies will primarily hold individual securities but could utilize mutual funds and ETFs. As a result, these Accounts are also subject to Underlying Fund Fees and Expenses, which can reduce returns.

## RISK OF LOSS

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The following is an overview of the material risks associated with Avalon's management and the instruments in which Clients invest; however, it is not intended to be a complete discussion of every possible risk to which a Client could be subject.

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

**Interest Rate and Credit Risk** – The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, a corresponding decline in the market value of

bonds follows. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. The principal on mortgage-backed or asset-backed securities normally can be prepaid at any time, which will reduce the yield and market value of these securities. Obligations of U.S. Government agencies and authorities are supported by varying degrees of credit but generally are not backed by the full faith and credit of the U.S. Government.

**Municipal Security Risk** – Municipal securities are subject to interest rate, credit, default and valuation risks. There generally is less information available on the financial condition of issuers of municipal securities than for public corporations. The market for municipal bonds can be less liquid than for taxable bonds. A portion of the income may be taxable. Some investors could be subject to alternative minimum tax. Capital gains distributions, if any, are taxable.

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

**Inverse ETF Risk** – Certain index ETFs seek investment results which are the *inverse* of a particular index, and for a single day only, not for longer periods. For periods longer than a single day, the ETF will lose money when the level of the index is flat, and it is possible that the ETF will lose money even if the level of the index falls. Longer holding periods, higher index volatility, and inverse exposure each exacerbate the impact of compounding on an investor's returns. Avalon seeks to mitigate this risk through daily monitoring.

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

**Emerging Markets Risk** – investments in emerging market issuers generally are subject to a greater risk of loss than investments in issuers located or operating in more developed markets. Emerging markets are more likely to experience inflation, political turmoil and rapid changes in economic conditions than more developed markets. Emerging markets often have less uniformity in accounting and reporting requirements, less reliable securities valuations and greater risk associated with custody of securities than developed markets.

**Uncertainty Risk** – Social, political, economic and other conditions and events (such as natural disasters, epidemics and pandemics, terrorism, conflicts and social unrest) will occur that create uncertainty and have significant impacts on issuers, industries, governments and other systems, including the financial markets, to which Clients and the issuers in which they invest are exposed. As global systems, economies and financial markets are increasingly interconnected, events that once had only local impact are now more likely to have regional or even global effects. Events that occur in one country, region or financial market will, more frequently, adversely impact issuers in other countries, regions or markets, including in established markets such as the United States. These impacts can be exacerbated by failures of governments and societies to adequately respond to an emerging event or threat. Once an event occurs it is impossible to determine or accurately predict

its precise nature and consequences, or those of any political or policy decisions and regulatory changes occasioned by it. Clients will be negatively impacted if the value of their investments decrease as a result of such events and the uncertainty they cause or if the operations and effectiveness of Avalon, the issuers in which Clients invest or their key service providers are compromised. This uncertainty can exacerbate other risks associated with investments, and the risk discussions in this brochure, the brochures of any third-party investment manager and the offering documents of any pooled investment vehicle.

## **PRIVATE FUNDS**

Private funds, including the Private Funds and Avalon Private Funds, are generally subject to the risks identified above. In addition, investors in a Private Fund or Avalon Private Fund should understand that these funds are speculative investments. The interests in private funds are illiquid or of limited liquidity and ownership of a private fund requires the ability to tolerate a high degree of risk. Each private fund will be subject to additional risks, that are described in the fund's PPM, which investors should review carefully.

## **AVALON PRIVATE FUNDS**

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

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

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

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

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

Under normal circumstances, the High Income Municipal Fund will invest at least 80% of its net assets in municipal debt securities that (i) pay interest that is excluded from gross income for federal income

tax purposes, and (ii) do not produce income that will be considered to be an item of preference for purposes of the alternative minimum tax by investing in revenue and general obligation bonds. The High Income Municipal Fund is permitted to invest up to 10% of its net assets in defaulted municipal debt securities. At least 40% of the High Income Municipal Fund's net assets will be invested in municipal debt securities that are rated BBB/Baa or lower. The High Income Municipal Fund is permitted to invest up to 20% of its net assets in securities that produce income that is subject to federal income tax. The High Income Municipal Fund is permitted to invest up to 25% of its net assets in municipal debt securities issued by entities deemed to have similar characteristics. Please refer to the High Income Municipal Fund documents for a detailed discussion regarding its risks.

### **Avalon Private Energy Fund, LP ("APEF")**

APEF's investment objective is to provide investors with attractive returns through investing its assets in two portfolio funds, Bayou City Energy II, L.P., which is sponsored and advised by Bayou City Energy Management, LLC, and EnCap Flatrock Midstream Fund IV, L.P., which is sponsored and advised by EnCap Flatrock Midstream a joint venture between Flatrock Energy Advisors, LLC and EnCap Investments, L.P. These portfolio funds, in turn, seek to primarily make direct private equity investments in assets or portfolio companies in the oil and gas sectors.

Risks to investing in APEF include risks inherent in private equity investments and the portfolio funds' expected use of leverage. Since a substantial portion of the partnership's assets will be allocated to the Bayou City Fund, the partnership's investments will be concentrated so that the performance of one or more of the portfolio funds might substantially impact, potentially negatively, the return of the partnership's investments as a whole.

The portfolio funds' respective investment programs are speculative and entail substantial risks. Market risks are inherent in all investments to varying degrees. Accordingly, no assurance can be given that the strategy or strategies utilized by the portfolio managers with respect to the portfolio funds will be successful under all or any future market conditions, or that the portfolio funds will be able to implement their investment strategies, achieve their investment objectives or avoid substantial losses.

Additional structural risks include, but are not limited to, the higher fees and expenses incurred by a fund-of-funds and the limited liquidity of investments in private investment vehicles. Please refer to the APEF documents for a detailed discussion regarding its risks.

### **Avalon Investment Partners, LLC ("AIP")**

As a holding company vehicle structured to allow clients of Avalon to aggregate commitments to, and to make investments in, alternative asset classes, AIP is intended, over time, to permit Avalon Private Clients to tailor their investments to their own particular risk profile, interests and portfolio construction.

AIP is generally invested in Fund Investments managed by third-party investment managers, and in Direct Investments. Risks associated with this structure include:

- multiple levels of expense associated with Underlying Investments

- delayed deployment of capital
- dependence on information provided by third parties and managers, resulting in the requirement to file for an income tax filing extension
- investment risks in general – loss of capital and no guarantee or representation of the success of the investment program of AIP or any Underlying Investment; past or targeted performance is not a guarantee, projection or prediction and not necessarily indicative of future results
- investment risk associated with share classes – there is no guarantee that the assets of a class will be sufficient to satisfy all of a Class' liabilities to non-members and that such non-members would not seek recourse against AIP's assets generally
- lack of significant diversification
- volatility of financial markets
- highly competitive markets for investments
- high degree of business and financial risk, leverage and intense competition from companies with greater financial resources and capabilities
- incentives created by performance incentives and management fees
- effect of defaults on capital contribution obligations
- control positions which might impose additional risks of liability (e.g., environmental damage, product defects, failure to supervise management and employees, violations of law)
- no role by AIP or AIP investors in the management of Underlying Investments
- lack of uniform reporting standards for Underlying Investments
- portfolio valuations
- borrowing and leverage by AIP (borrowing terms risk), or subscription facility to satisfy funding obligations for a particular Fund Investment (costs and expenses charged to a particular class)
- non-U.S. investments
- lack of access to future investment opportunities
- allocations of investment opportunities which might be limited or negated
- possible adverse tax consequences
- outside activities of Avalon, although Avalon and Cynosure personnel will devote such time as is reasonably necessary to conduct the business affairs of AIP in an appropriate manner
- regulatory review, disclosure and audit, which could cause certain information to be publicly available

**Additional specific risk factors will be outlined in investment materials related to a particular Underlying Investment. Such materials will usually include, PPM, Underlying Investment presentations, and other related documents. All information made available should be reviewed carefully and in great detail prior to making an investment into AIP.**

## **ITEM 9 - DISCIPLINARY INFORMATION**

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

## ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Avalon has several related entities:

**Avalon Wealth Management LLC ("AWM")** is a broker-dealer wholly owned by Avalon which was formed to engage in placements of private investment funds. As required of a broker-dealer, AWM is registered with the SEC and is a member of FINRA. All registered representatives of AWM also are investment advisor representatives of Avalon ("**Client Advisors**"). These registrations permit AWM and its registered personnel to receive sales compensation on assets placed in Private Funds. This compensation creates a conflict of interest with Avalon clients when AWM representatives recommend to Clients they invest in a Private Fund for which AWM (and/or its personnel making the recommendation) will receive compensation. This conflict is mitigated through disclosure and by Avalon's and Client Advisors' fiduciary duty to Avalon Clients.

**Avalon Carlyle Private Equity Fund I GP, LLC** is the general partner of Avalon Carlyle PE Fund I, L.P. Recommending Clients invest in Avalon Carlyle creates a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's receipt of the investment management fee and later receipt of distributions from Avalon Carlyle. This conflict is mitigated through a continual disciplined approach to assessing the Client's investment objectives and risk tolerance and encouraging each Client to review the Avalon Carlyle documents before investing, and to inquire of Avalon if the Client has any questions about the terms, conditions or conflicts related to Avalon Carlyle.

**Avalon Global Real Assets Fund GP, LLC** is the general partner of Avalon Global Real Assets Fund, LP. Recommending Clients invest in AGRA creates a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's receipt of the investment management fee. This conflict is mitigated through a continual disciplined approach to assessing the Client's investment objectives and risk tolerance and encouraging each Client to review the AGRA documents before investing, and to inquire of Avalon if the Client has any questions about the terms, conditions or conflicts related to AGRA.

**Avalon High Income Municipal GP, LLC** is the general partner of Avalon High Income Municipal Fund, LP. Recommending Clients invest in the High Income Municipal Fund creates a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's receipt of the investment management fee from the High Income Municipal Fund. This conflict is mitigated through a continual disciplined approach to assessing the Client's investment objectives and risk tolerance and encouraging each Client to review the High Income Municipal Fund documents before investing, and to inquire of Avalon if the Client has any questions about the terms, conditions or conflicts related to AGRA.

**Avalon Private Energy Fund GP, LLC** is the general partner of Avalon Private Energy Fund, LP. Recommending Clients invest in APEF creates a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's receipt of the investment management fee. This conflict is mitigated through a continual disciplined approach to assessing the Client's investment objectives and risk tolerance and encouraging each Client to review the APEF documents before investing, and to inquire of Avalon if the Client has any questions about the terms, conditions or conflicts related to APEF.



**Avalon Wallace Investment Management, LLC** is the general partner of a Private Fund, Avalon Wallace Investment Fund, LP, managed by an advisor unaffiliated with Avalon, Wallace Capital Management, LP. Avalon can recommend to Clients they invest in this Private Fund, creating a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's ownership share of the general partner, which receives a share of the management and performance fees from the Private Fund. This conflict is mitigated through a disciplined approach to assessing the Client's investment objectives and risk tolerance and encouraging each Client to review the Private Fund documents before investing, and to inquire of Avalon if the Client has any questions about the terms, conditions or conflicts related to the Private Fund.

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

**BlackGold Capital Management, LP** entered into a Joint Venture Agreement ("JV Agreement") with Avalon through which Clients of Avalon and BlackGold invest in the Avalon-BlackGold Share Class of the BlackGold Partnership or establish separately managed accounts with BlackGold. The JV Agreement also permits clients of an unrelated broker-dealer to invest in the BlackGold Investment Opportunity Fund, LP as an exception to the exclusivity provisions of the JV Agreement. Although AWM will receive from BlackGold a portion of the management and incentive fees paid by clients of the unrelated broker-dealer, no fiduciary duty is owed by Avalon to BlackGold's clients.

Avalon recommends to Clients that they invest in the Avalon-BlackGold Share Class, creating a conflict of interest between Avalon and these Clients. This conflict exists due to Avalon's JV Agreement with BlackGold, in which Avalon receives a share of the management and performance fees from the Private Fund via a placement agreement with AWM. This conflict is mitigated through a disciplined approach to assessing the Client's investment objectives and risk tolerance and encouraging each Client to review the Private Fund documents before investing, and to inquire of Avalon if the Client has any questions about the terms, conditions or conflicts related to Avalon-BlackGold Share Class.

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

**Cynosure Management, LLC**, is under common control with Avalon because it is controlled by individuals who also are Elected Managers of Avalon; it is also the manager of two pooled investment vehicles that jointly own a minority interest in Avalon.



Part of The Cynosure Group, Cynosure Management is an investment firm based in Salt Lake City, Utah, that is an SEC-registered investment adviser. Cynosure Management provides private investment advisory and wealth management services. Cynosure Management's investment advice generally relates to private equity and other alternative investments. Cynosure Management also is the manager of the Cynosure Avalon BuildGroup, LLC fund, which is closed to new investors. Avalon Wealth Management acted as Placement Agent for the fund, selling interests to qualified purchasers, some of whom also are (or were at the time) clients of Avalon. The conflicts arising from these relationships were outlined in the fund offering documents provided to, and the Placement Agent Disclosure agreement acknowledged by, each fund investor.

Cynosure Management has entered into an investment sub-advisory and administrative services agreement with Avalon. Cynosure Management allocates some of its clients' assets, where appropriate, to investment strategies managed by Avalon, which creates a conflict of interest as both Cynosure Management and Avalon receive management fees from those clients; this conflict is mitigated through disclosure to clients, including in this brochure and supplements for each Avalon Portfolio Manager.

As earlier noted, Cynosure Management manages an investment platform structured in substantially the same manner as AIP which is called Cynosure Investment Partners, LLC ("CIP"). Cynosure Management also is the administrator and sub-advisor to AIP. Various conflicts of interest exist between and among Avalon and Cynosure, or AIP and CIP, or other parties connected to any of them. These conflicts are mitigated through the adoption of an allocations policy; disclosure of upcoming opportunities and ongoing financial reporting to Avalon; Avalon's continual disciplined approach to assessing the client's investment objectives and risk tolerance; and encouraging each client to review the appropriate documents before investing, and to inquire of Avalon if the Client has any questions about the terms, conditions or conflicts related to AIP or Avalon BuildGroup, LLC fund.

In addition, Cynosure Management is not prohibited from engaging any entity in which they have an interest to perform services for or sell supplies to AIP so long as the compensation paid in such arrangement is fair value and no higher than would be charged by an unrelated third-party. However, conflicts of interest would arise if any such entity failed to perform adequately its undertakings to AIP. This conflict is mitigated by Avalon's third-party due diligence.

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

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

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

The Code describes the general standard of conduct that Avalon expects of all personnel and focuses on specific areas where the conduct of personnel has the potential to adversely affect the client, including misuse of nonpublic information and personal securities trading.

## **MATERIAL NONPUBLIC INFORMATION**

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Avalon and its related persons, from time to time, come into possession of material nonpublic and other confidential information which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Avalon can be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, regardless of whether such other person is an advisory Client. Accordingly, should Avalon come into possession of material nonpublic or other confidential information with respect to any company, it is prohibited from communicating such information to, or using such information for the benefit of, its Clients, even if such action could have benefited the Client; Avalon has no obligation or responsibility to disclose such information to, nor responsibility to use such information for the benefit of, its Clients or Avalon personnel when following policies and procedures designed to comply with the law. Conversely, if Avalon chooses not to obtain material non-public information, such information could be valuable to other market participants that could act to the detriment of one or more Clients, or Avalon might also not receive information that would not have impeded its ability to act and which could have resulted in a better decision on behalf of a Client.

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

## **PERSONAL SECURITIES TRADING**

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Avalon or individuals associated with the Firm are restricted from the purchase and sale for their own Accounts of any covered security on the same business day as a transaction in any such security effected for a Client Account unless all the transactions contemplated for Avalon Clients in that security have been completed before such transactions. Access persons also cannot engage in a personal transaction in a security for which any order for a Client is pending until such order is executed or withdrawn. However, Avalon's trading policies allow the Accounts of access persons to trade simultaneously with trades being placed for Clients when their funds are being managed by Avalon in a similar manner to Avalon's Clients. All access persons are required to notify the CCO

or designee to pre-clear personal securities transactions in reportable securities, initial public offerings ("IPOs") and limited offerings.

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

## INVESTMENTS IN PRIVATE FUNDS

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

Clients who invest in certain Private Funds managed by unaffiliated investment advisors with whom Avalon has entered into appropriate arrangements will be charged an Avalon Advisory Fee, as described above, or could be offered the opportunity to participate in a discounted class of interests in the relevant Private Fund. Clients who invest in Avalon Private Funds will not be charged a Client Advisory Fee on those assets. For further information, please see the Private Fund's PPM. The PPM is provided to Avalon and the relevant Client prior to investment. Avalon and/or its personnel can and do also have interests in these or other Private Funds.

## ITEM 12 - BROKERAGE PRACTICES

### SELECTION OF CUSTODIANS

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Avalon recommends one or more firms to serve as custodian ("**Custodian**") to hold the funds and securities of a Private Client Account. The identity of and relevant information about the Custodian for each Private Client Account is provided to the Private Client. The Custodian could also serve as the prime broker and execute transactions on behalf of the Account, consistent with Avalon's obligation to seek best execution. Avalon also typically chooses which broker effects a particular transaction and, on occasion, the amount of commission the Private Fund pays for such trade. Avalon can "trade away" for specific trades, executing trades through brokers other than the Custodian to gain access to greater inventory or better price or execution. Avalon recommends Custodians to provide specific services to the Account, allowing the Account to operate effectively and efficiently. For example, Avalon can gain electronic access to Account information and trade confirmations, bulk mailing of statements to Investors or Clients, internet Account access to Investors or Clients and access to specialized customer service personnel.

## SELECTION OF BROKERS

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

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

In applying these factors, Avalon recognizes that different broker-dealers have different execution capabilities for different types of securities and transactions. The factors include:

- Avalon's knowledge of negotiated commission rates and spreads currently available
- the nature of the security being traded
- the size and type of the transaction
- the nature and character of the markets for the security to be purchased or sold
- the desired timing of the trade and speed of execution
- the activity existing and expected in the market for the particular security
- the broker-dealer's access to primary markets and quotation sources
- the ability to effect transactions for a large block and/or in the case of limited liquidity
- confidentiality
- the execution, clearance and settlement capabilities as well as the reputation and perceived soundness of the broker-dealer selected and others which are considered
- Avalon's knowledge of actual or apparent operational problems of any broker-dealer
- the broker-dealer's execution services rendered on a continuing basis and in other transactions
- the broker-dealer's reliability in executing trades, keeping records and accounting for and correcting its trade errors

- the broker-dealer's ability to accommodate Avalon's needs with respect to one or more trades, including the willingness and ability to maintain quality execution in unusual or volatile market conditions and, if necessary, to commit capital by taking positions to complete trades
- the availability of the broker to stand ready to execute possible difficult transactions in the future
- the quality of the communication links between Avalon's trading desk and the broker-dealer's
- the quality of brokerage and research services provided by the broker-dealer
- the reasonableness of spreads or commissions

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

Occasionally, Avalon executes over-the-counter trades on an agency basis rather than directly through a market maker. In these situations, the broker used by Avalon then acquires or disposes of the security through a market maker. The transaction might be subject to a markup or mark-down. Avalon uses a broker in such instances only when consistent with its duty to seek best execution for Client transactions. The use of a broker in this manner benefits Clients by providing anonymity in connection with a transaction or because the broker can have greater expertise or capability in connection with market access and transaction execution. Avalon has found that it might not receive the same level of service through a market maker as through a broker-dealer that trades on an agency basis.

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

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

At least annually, and as appropriate depending upon trading volume, Avalon's trading committee (the "**Committee**") and other appropriate members of Avalon's staff meet to review trading practices and activities. These meetings include evaluating the quality of executions received and

commission rates paid by discretionary Accounts, to determine if any changes should be made in their brokerage arrangements. The goal of this process is to promote reasonable, good faith judgment to select broker-dealers or other trading venues that will consistently provide quality execution at an acceptable cost.

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

## RESEARCH AND OTHER SOFT-DOLLAR BENEFITS

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Research services provided by a broker-dealer can be either proprietary (*i.e.*, created and provided by the broker-dealer, including tangible research as well as access to analysts and traders) or third-party (*i.e.*, created by a third-party but provided by the broker-dealer). The brokerage commissions used to acquire research in these arrangements are known as “**soft dollars**.” Avalon uses soft dollars to acquire either or both types of research; however, Avalon will not enter into any agreement or understanding with a broker-dealer that would obligate Avalon to direct a specific amount of brokerage transactions or commissions for such research (or brokerage) services. Certain broker-dealers state in advance the amount of brokerage commissions they require for some services and the applicable cash equivalent. Research or brokerage services acquired by Avalon with soft dollars include, without limitation and to the extent permitted by applicable law:

- research reports on companies, industries, and securities
- economic and financial data
- financial publications
- broker-sponsored industry conferences
- market data related software and services

Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a “safe harbor” that allows an investment advisor to pay for research and brokerage services with the commission dollars generated by Client Account transactions. Under SEC interpretations, client commissions can be used for certain research and brokerage-related products and services that assist Avalon in meeting its Clients' investment objectives or in managing the Clients' accounts. The receipt of these services in exchange for soft dollars benefits Avalon. Specifically, at no cost to the Firm, Avalon can:

- supplement or assist Avalon's own research and analysis activities, by, for example, arranging or conducting meetings between Avalon and management of individual companies to allow Avalon to converse with company officials
- receive the views of, and information from, individuals and research staffs of other securities firms
- gain access to persons having special expertise in certain companies, industries, areas of the economy and market facts

Therefore, Avalon has an incentive to direct Client Account transactions to broker-dealers that provide research or other products or services rather than our Client's interest in receiving the most favorable execution. Avalon can allocate brokerage commissions for brokerage and research services that are also available for cash, when appropriate and permitted by law. While the receipt of research in exchange for soft dollars is not expected to reduce Avalon's normal research activities, Avalon's expenses could increase materially if it attempted to generate such additional information and services through its own staff. Avalon also pays cash for certain services.

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

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

These determinations are made by, and based primarily on, the professional opinions of the persons responsible for the placement and review of such transactions. Such opinions are formed on the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other investors of comparable size and type.

Avalon will select broker-dealers based on its assessment of each broker-dealer's ability to provide quality executions and its belief that the research, information and other services provided by such broker-dealer could benefit Client Accounts. It is not possible to place a dollar value on the quality of executions nor on the brokerage and/or research services Avalon receives from broker-dealers effecting transactions in account securities. Accordingly, broker-dealers selected by Avalon can be paid commissions for effecting account transactions for Client Accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if Avalon determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or Avalon's overall duty to its discretionary Accounts.

Research obtained with soft dollars will not always be used by Avalon for the specific Account that generated the soft dollars. The value of research and brokerage services often cannot be measured with precision. Commissions paid for such services cannot always be allocated to Clients in direct proportion to the value of the services to each Client. Because Avalon routinely batches Client transactions, brokerage commissions attributable to one or more Client Accounts can be allocated

to brokers who provide statistical data and other research used by Avalon in managing the Accounts of other Clients, and vice versa. Although it is often inevitable, at least in the short run, that commissions paid by other Accounts, in effect, subsidize services that benefit other Accounts, Avalon's various sources of research and brokerage services enable Avalon to make better investment decisions and execute more effective trades. Therefore, Avalon does not usually attempt to allocate the relative costs or benefits of research among Client Accounts because it believes that, in the aggregate, the research it receives benefits Clients and assists Avalon in fulfilling its overall duty to Clients.

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

Trades executed in a Client Picks Account, Avalon equity accounts or odd lot trades executed through Advent's Moxy® trade order management system might generate soft dollars with Bloomberg Tradebook, LLC, Instinet, LLC "INSTINET®" or other providers. This creates a conflict of interest when Client Picks Accounts generate soft dollars that are used by Avalon in advising other Client Accounts.

## **BROKERAGE FOR CLIENT REFERRALS**

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Avalon does not enter into agreements with or make commitments to, any broker-dealer that would bind Avalon to compensate that broker-dealer, directly or indirectly, for client referrals through the placement of brokerage transactions. Excluding ERISA Accounts, where one or more broker-dealers are believed capable of providing an equivalent quality of execution for a particular transaction, Avalon can select a broker-dealer in recognition of the broker-dealer's past referral of the Client for whom the transaction is being executed, or of other Clients, or in anticipation of possible future referrals from the broker-dealer. Avalon has an incentive to select a broker-dealer that has referred, or could in the future refer, a client to Avalon.

Avalon exercises its discretion to execute transactions through broker-dealers that also refer Clients when the use of such a broker-dealer is consistent with Avalon's duty to seek best execution and without consideration of such referrals as a factor in the brokerage decision. In doing so, unless otherwise specifically disclosed to the Client, Avalon will not cause an account to pay higher costs (e.g., commissions, concessions or mark-ups/downs) than would otherwise be obtainable regarding such a transaction from broker-dealers that do not provide such referrals, but which otherwise provide similar quality execution services (including, as applicable, soft dollar services) for Avalon; however, Avalon has an incentive to select or recommend a broker-dealer based on our interest in receiving client referrals, rather than on our Client's interest in receiving most favorable execution. Clients can limit Avalon's discretion by directing Avalon to trade through a particular broker-dealer, including one which could refer or has referred the Client to Avalon. Avalon follows its policies and procedures in its selection of broker-dealers.



## CLIENT DIRECTED BROKERAGE

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Avalon generally selects broker-dealers to execute transactions for Clients. However, in limited circumstances, Avalon accepts direction from Clients as to which broker-dealer(s) should or must be used. **Please be aware that Clients who, in whole or in part, direct Avalon to use a specific broker-dealer to execute Account transactions or otherwise limit or remove Avalon's discretion to select broker-dealers to execute their Account transactions could adversely affect Avalon's ability to, among other things, negotiate commission rates or spreads, obtain volume discounts on bunched orders. In such circumstances, directed brokerage could cost Clients more money (e.g., higher commissions, transaction costs), and best price and most favorable execution might not be achieved. Further details about directed brokerage arrangements are described below.**

Clients can direct Avalon to use particular broker-dealers to execute account transactions for their Accounts. If the Client directs the use of a particular broker-dealer, Avalon generally asks the Client to specify, in writing:

- (1) general types of securities for which the designated firm should be used; and,
- (2) whether the designated firm should be used for all transactions.

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

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

## COMMISSION RATES OR EQUIVALENTS

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Avalon endeavors to be aware of current charges of eligible broker-dealers and to minimize the expense incurred for effecting transactions to the extent consistent with the interests and policies of its Accounts. Avalon periodically reviews the quality of executions received from the broker-dealers it uses and can consider the services of other broker-dealers who are available to execute Client

transactions. Any broker-dealer that has provided (or be reasonably expected to provide) acceptable performance and whose financial condition and commission rates are acceptable to Avalon could be selected to execute transactions for Client Accounts. Avalon chooses to maintain an "approved broker list" consisting of such broker-dealers; however, broker-dealers not on such a list can still be selected if Avalon believes that using such a broker-dealer is consistent with its duty to seek best execution of Client transactions.

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

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

## **ORDER AGGREGATION**

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

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

to obtain more timely or equitable executions or to reduce overall transaction costs and charges. For these reasons, the batching of orders can facilitate lower transaction costs, and when a Client transaction cannot be included in the batch, that Client could incur higher costs.

Avalon seeks to aggregate trade orders in a manner consistent with its duty to:

- seek best execution of Client orders
- treat all Clients fairly and equitably over time
- not systematically advantage or disadvantage any Client or group of Clients

When a decision is made to aggregate transactions for multiple Accounts, Avalon will allocate the results of those transactions to participating Accounts in a manner that is fair and equitable over time. When a bunched order is filled in its entirety, each participating Account will participate at the average price paid or received, per share or unit, on that day for the bunched order, based, generally, on the initial amount requested for the Account (subject to certain size- or cost-related exceptions), and each participating Account will pay or receive the average share or unit price for the portion of the bunched order filled on that same business day and will pay associated transaction costs based on that Account's participation in the bunched trade. When a bunched order is partially filled, Avalon will allocate the order in accordance with relevant written allocation and aggregation procedures, described generally below.

*Pro rata* allocation generally is used when a batch order that seeks to transact in liquid, actively traded securities, cannot be fully executed in a single day; however, Clients that direct brokerage will not typically participate in this *pro rata* allocation. The partial fill is allocated among the participating Client Accounts based on the size of each Account's original order, subject to rounding to achieve "round lots." Unexecuted orders will continue until the block order is completed or until all component orders have been canceled. New orders for the same security will be aggregated with any remaining unexecuted orders and will continue in the same manner. Avalon generally will apply a minimum order allocation amount of 100 shares, which can be adjusted based on market convention associated with the security. Similar market conventions can be applied to fixed income trades.

If remaining positions are too small to satisfy the minimum order amount, Avalon could decide to allocate the remaining shares to those Accounts seeking large positions that were unfilled. Avalon can also decide to allocate remaining shares to those Accounts whose orders would be completed because of the allocation. Avalon might allocate on a basis other than *pro rata*, if, under the circumstances, Avalon believes that such other method of allocation is reasonable, does not result in improper or undisclosed advantage or disadvantage to participating Accounts and results in fair access over time to investment and trading opportunities for all eligible Accounts. For example, Avalon identifies investment opportunities that are appropriate for one Account or group of Accounts but not others (or with respect to which a relatively higher weighting is appropriate for one Account or group of Accounts over others) based on such factors as investment objectives and style; risk/return parameters; legal, regulatory and client requirements or restrictions; tax status; account size; sensitivity to turnover; available cash; and cash flows. Consequently, Avalon could determine that it is appropriate to place a given security in one Account rather than another or to

allocate a security more to particular Accounts over others. Other non-*pro rata* methods that Avalon employs include rotational allocation and random allocation. Alternative methods of allocation can be especially appropriate when the transaction size is too limited to be effectively allocated *pro rata* among all eligible managed Accounts.

Avalon also considers the following when allocating trades:

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

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

While Avalon effects trades in this manner to reduce the overall level of brokerage commissions paid or otherwise enhance proceeds or other benefits of the trade for their Clients, Avalon can direct transactions to brokers based on both their ability to provide high-quality execution and the nature and quality of research services. As a result, Clients will not always pay the lowest available commission rates where their trades are effected in this manner, so long as Avalon seeks to obtain best execution, under the circumstances and considering the research and brokerage services provided.

## CROSS TRADES

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

## ALLOCATION OF INITIAL EQUITY PUBLIC OFFERINGS “IPOS”

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Avalon generally does not invest Client Accounts in IPOs. If Avalon does determine to invest Client Accounts in IPOs, as defined in relevant rules established by the Financial Industry Regulatory Authority (“**FINRA**”), such investments will be allocated fairly and consistently with FINRA Rules 5130 and 5131. These rules provide that broker-dealers, their affiliates and certain other persons (“**restricted persons**”) are not permitted to participate in IPOs. Only Accounts that are eligible under Rules 5130 and 5131 to participate in profits and losses attributable to IPOs (“**eligible Accounts**”) will be permitted to receive allocations of new issues. Avalon generally will make allocations of IPOs on a *pro rata* basis among eligible Accounts. However, when allocating IPOs, Avalon can consider relevant tax implications for the Client Account and to what extent the Client's Account Custodian can execute same-day trades in IPOs.

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

## TRADE ERROR CORRECTIONS

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Avalon's trading desk seeks to execute transactions as instructed by the portfolio manager and in accordance with our duty of care. However, occasionally, errors do occur. When Avalon is responsible for a trade error, Avalon, rather than the Client, bears the costs and risks of erroneous trades. When a trade error is discovered by a trader or other relevant person, the error is documented, and Avalon transfers the erroneous position to that broker or custodian's “error account” when possible at the price paid or received by the Client, and seeks to unwind the position as quickly as is practicable. The trade error policy of the custodian generally will dictate the trade error correction mechanics. Avalon bears the economic risk of losses in positions in the error account. Additionally, Avalon or the broker or custodian absorbs all brokerage or other transaction costs related to correcting errors.

# ITEM 13 - REVIEW OF ACCOUNTS

## PORTFOLIO ACTIVITY

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Avalon has a fiduciary duty to provide services consistent with the client's best interest. As part of its investment advisory services, Avalon will review Client Accounts on an ongoing basis to determine if any changes are necessary based upon various factors, including, but not limited to, market conditions, performance, account additions/withdrawals, and/or a change in the Client's investment objective. Based upon these factors, there could be extended periods when Avalon determines that changes to a Client's holdings are neither necessary nor prudent. Avalon's Advisory

Fees and any other fees, including any management fees, remain payable during periods of account inactivity.

## **MANNER OF ACCOUNT REVIEW**

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Review of the Accounts is ongoing and continuous by the Client Advisor assigned to the Account. Such reviews will include an examination of the Account's strategy, performance, and other matters. The Client Advisor assigned to a Client will also discuss the Client's overall strategy and goals no less than twice annually, or at Client request. Clients are encouraged to contact Avalon if there are any changes in their financial situation or investment objectives.

Clients can always access and review their Accounts and portfolios online, including the written quarterly reports provided to Clients. Quarterly reports provided to Avalon Clients contain: (i) the assets held in the Account; (ii) the performance of the Account in both percentage and dollars; and, (iii) any transactions in the Account during that quarter. Each Client receives an annual Realized Gains & Loss Report.

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

Investors in Private Funds will receive such reports per the relevant Private Fund's PPM. To comply with the Custody Rule, as further described in Item 15 - Custody, the Private Fund's advisor generally will choose to provide annual audit reports within 120 days following the Private Fund's fiscal year end (180 days for a fund of funds). Annual reports include or are accompanied by information with respect to the performance of the Private Fund, information regarding the Investor's capital account, and certain tax reporting information (e.g., Form K-1). Investor reports are issued quarterly and could include valuations of the Private Fund's assets, transaction summaries and the value of an Investor's interest in the Private Fund as well as unaudited financial information, including the performance of the Private Fund against an appropriate benchmark.

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

Avalon relies on information provided by third parties in preparing reports and a third party will assist in preparing and/or distributing reports. Where reports include or rely upon information from a source other than Avalon (e.g., index information when a report includes a comparison of the Account's performance to that of an index), Avalon attempts to obtain such information from reliable sources. The accuracy of such information cannot be guaranteed. As noted in Item 5 - Fees and Compensation, reports can also include or rely upon fair value determinations made by Avalon or a

third party. While such valuations are made in good faith, their actual or empirical accuracy cannot be guaranteed.

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

## ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

Avalon does not currently maintain referral arrangements, paid or otherwise, with any Custodian or other third-party solicitors. In the event Avalon should, in the future, pay cash referral fees to a third-party solicitor, the referral agreement and the related activities will comply with Advisers Act Rule 206(4)-3. Rule 206(4)-3 specifies certain standards that must be met by an investment advisor prior to the payment of a cash fee directly or indirectly, for a client solicitation or referral. To the extent that Avalon determines to maintain a referral arrangement, fees charged by Avalon to private Clients or Investors introduced by the solicitor will not, because of the solicitation, be any higher than those charged to similar Clients or Investors who were not introduced by the solicitor.

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

## ITEM 15 - CUSTODY

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

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

As noted in Item 13 - Review of Accounts, Avalon provides 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 discovers any discrepancy between the statements, the Client should contact Avalon and the Account Custodian immediately.**

Because an entity related to Avalon serves as a general partner or managing member of each Avalon Private Fund, Avalon is also deemed to have custody over the Avalon Private Funds within the meaning of the Custody Rule. To comply with this rule, the general partner provides each Investor in the Avalon Private Funds audited financial statements within 120 days following the Avalon Private Funds' fiscal year end (and within 180 days following the fiscal year end for any Avalon Private

fund of funds.) The audit is conducted by a PCAOB registered and inspected firm. **The Client should review these audited financial statements carefully. If the Client has invested in a Private Fund or an Avalon Private Fund and has not received audited financial statements timely, the Client should contact Avalon immediately.**

## ITEM 16 - INVESTMENT DISCRETION

For discretionary Accounts, the Firm has discretionary authority to manage securities on behalf of its Clients, including full trading authority under a limited power of attorney assigned to Avalon per the Client Agreements. As a result, Avalon will determine the following:

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

Except as discussed in the sub-section "Advisory Services" under Item 4 – Advisory Business regarding certain Specialty Accounts including Funding Accounts, Client Picks Accounts and Restricted or Control Stock Accounts, Avalon typically does not accept Accounts with limited discretion or where investments are Client-directed, but can accept Client direction as to the broker or dealer through whom securities are bought or sold. Avalon generally requires that such direction be in writing, either as part of the Client contract or otherwise. Avalon reserves the right, in its sole discretion, to change the brokerage arrangements described herein without further notice to Clients or Investors. Avalon will obtain permission from the Client prior to opening an Account in the Client's name at a custodian.

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

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



## ITEM 17 - VOTING CLIENT SECURITIES

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

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

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

## ITEM 18 - FINANCIAL INFORMATION

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