



Form ADV Part 2A - Firm Brochure

Avalon Investment & Advisory
2929 Allen Parkway, Suite 3000
Houston, TX 77019-7124

www.avalonadvisors.com

March 31, 2023

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. 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. 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.

ITEM 2 – MATERIAL CHANGES

Since the annual amendment filed March 31, 2022, the firm has made the following material updates to our Form ADV Part 2A:

- Avalon has updated Item 5 - Fees and Compensation to reflect the change in the way the Management Fees for the Avalon Private Funds and AIPs are charged; and
- Item 8 – Method of Analysis, Investment Strategy and Risk of Loss has updates to each of the strategies described therein.

ITEM 3 – TABLE OF CONTENTS

Item 2 – Material Changes	2
Item 3 – Table of Contents.....	3
Item 4 – Advisory Business.....	4
Item 5 – Fees and Compensation	6
Item 6 – Performance-Based Fees and Side-By-Side Management	14
Item 7 – Types of Clients	15
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	15
Item 9 – Disciplinary Information	28
Item 10 – Other Financial Industry Activities and Affiliations	28
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	30
Item 12 – Brokerage Practices.....	32
Item 13 – Review of Accounts.....	41
Item 14 – Client Referrals and Other Compensation	43
Item 15 – Custody.....	43
Item 16 – Investment Discretion.....	44
Item 17 – Voting Client Securities	44
Item 18 – Financial Information	45

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. The Firm is owned by Avalon employees, clients, and an entity which is 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 private funds, ~~also~~ to herein as "**Avalon Private Funds**". The Avalon Private Funds are exempt from the definition of an "investment company" in, and are not registered under, the Investment Company Act of 1940. Limited partner interests in the Avalon Private Funds are available to those investors who satisfy the applicable eligibility and suitability requirements to invest in private placement transactions Private Clients and Avalon Private Funds are collectively referred to in this brochure as "**Clients**".

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**").

AVALON PRIVATE FUNDS

Avalon provides investment advisory services to private pooled investment vehicles. These Private Funds are offered to Avalon's Clients and outside parties. The terms of each private fund are outlined in the respective fund offering documents. These funds are generally organized as Delaware limited partnerships and pursue a variety of strategies as is outlined in Item 8 of this Brochure.

ADDITIONAL SERVICES AVAILABLE TO PRIVATE CLIENTS

CONSOLIDATED REPORTING SERVICES

Upon a Private Client's request, Avalon includes in its reports assets that are not under advisement or management by Avalon. Avalon provides manual tracking of such assets for informational purposes only and is not responsible for investment decisions related to, or valuation of, such assets. Avalon will either establish an automated feed directly with the applicable custodian or, where not possible, 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.
- Coordinate with third-party providers (tax professionals, estate attorneys, etc.) as needed.

CONSULTING SERVICES

Upon a Private Client's request, Avalon will consult with and provide guidance to certain institutional clients that wish to evaluate existing service providers and investment managers. Services include:

- Evaluate existing investment consulting arrangements, providing an overview of services and associated costs
- Comparison of other investment consultants
- Negotiation or re-negotiation of fees
- Analysis of third-party managers and their associated fees
- Analysis of third-party service providers and their associated fees

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 directed 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 and/or seek best execution. 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. 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.

CLIENT ASSETS UNDER MANAGEMENT

As of December 31, 2022, the Firm had \$7.302 billion under management. This includes: (1) \$7.024 billion of discretionary assets; and (2) \$278 million of non-discretionary assets.

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, Since Avalon advises Private Clients on their asset allocation in light of that person's circumstances, each Private Client's total fees will vary depending on Avalon's advice. 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

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, 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 Advisory Fee for discretionary accounts is based on a percentage of assets in the Accounts, not including allocations to existing Avalon Private Funds or Private Funds.

Advisory Fee for Client Portfolios Greater than \$5 Million

<u>Asset Level</u>	<u>Annual Fee</u>
First \$25,000,000	0.70%
Next \$25,000,00	0.60%
Next \$25,000,000	0.40%
Above \$100,000,000	0.30%

In addition to the Advisory Fee for internally managed strategies, Avalon will also charge a Product Fee that will vary by investment strategy and will range from 0.05% to 0.50%. For certain externally managed strategies, the third-party managers fee is deducted from the fee that Avalon collects from the client so there is no additional cost to clients. In other cases, the third-party adviser fee is passed on in full or in part to Clients. Further, mutual funds and exchange traded funds ("ETFs") inherently contain additional expenses. Please see "Product Fees" immediately following this section for additional details.

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 for most strategies but may be higher for others including up to \$10 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. Some accounts are subject to a minimum Advisory Fee of plus additional Product Fees. Please also see "Fee Dispersion" later in this section.

PRODUCT FEES

Avalon has separate product fee schedules ("Product Fees") for Clients in addition 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 \. Except as otherwise negotiated with the Client, or as described below, Product 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 above and below, fees for Accounts are negotiable.

If client assets are allocated to an unaffiliated private investment fund, clients generally bear all fees and expenses applicable to the investment in the funds, including fixed fees, asset-based fees, performance-based fees, carried interest, incentive allocation, and other compensation, fees, expenses and transaction charges payable to third party fund managers in consideration of their services to the funds. Additionally, clients will indirectly bear their pro rata share of other expenses incurred by the fund, which typically include administrative, custodial, transaction and organizational costs, accounting and audit, insurance, research, travel, and other costs necessary to carrying out the business of the fund and production of the fund's net asset values. Investors should review all fees and expenses as disclosed in the applicable fund governing documents to fully understand the total amount of fees to be paid in addition to Avalon in accordance with the fee schedule set forth in this Item 5.

Avalon also has negotiated with the advisor of a Private Fund to waive or reduce the fees charged to investors in that Private Fund.

Specifically, Product and Advisory 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, including Advisory Fees and Product 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. Product Fees for partial periods will be assessed *pro rata*.

ACCOUNT PERFORMANCE FEE

In addition to Client's existing Advisory and Product Fee, Avalon charges a performance fee for the Avalon Bexar Opportunities Account. The annual performance fee is based on the total return in US dollars for the Account for each calendar year (or partial calendar year). The performance fee is a flat fee equal to 10% of the total positive return for the year in US dollars; provided, however, that the performance fee is only payable on the positive return in excess of 5%. No performance fee is charged if the Account returned a total return for the calendar year of less than 5%. The fee is calculated on 31 December unless the Account is closed, in which case it is calculated at the date of closing for the partial calendar year. See Item 6 of this Brochure for additional information regarding performance fees.

PRODUCT FEE SCHEDULES

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 Product Fees for the various accounts are described below:

FIXED INCOME

Product Fees for most 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>
First \$20,000,000	0.35%
\$20,000,001 to \$50,000,000	0.25%
\$50,000,001 to \$100,000,000	0.20%
Above \$100,000,000	0.15%

Product Fees for these accounts are charged quarterly in arrears.

Avalon can waive a portion of its Product Fee 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 Product Fees in accordance with normal stated rates.

TOTAL MARKET FIXED INCOME

Product Fees for most 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 Product Fee calculation:

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

Above \$100,000,000	0.25%
----------------------------	-------

Fees for these Accounts are charged quarterly in arrears.

HIGH INCOME MUNICIPAL

Product Fees for most 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 Product Fee calculation:

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

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

AVALON EQUITY

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

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

Product 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. 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.

AVALON PRIVATE FUNDS

As an Avalon Client, each Avalon Private Fund other than AIP 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 previously paid Management Fees quarterly in advance, although as of March 31, 2019, such fees are no longer charged. 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, are borne by the general partner. Avalon Carlyle paid 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; however, these Organizational Expenses have been fully amortized. Please refer to Avalon Carlyle's documents for details concerning the partnership's payment of fees and expenses.

AGRA previously paid Management Fees quarterly in advance, although as of April 30, 2020, such fees are no longer being charged. 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, are borne by the general partner. AGRA will pay all Organizational Expenses; however, these Organizational Expenses have been fully amortized. 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 Cynosure's services as sub-advisor, AIP agreed to pay Cynosure a fee and a performance incentive comprised of a share of the class net profits of one of the share classes. The specific fee is set forth in the class designation document for each particular investment class in AIP.

Avalon Clients will pay a fee, charged quarterly in arrears, for advisory services provided by Avalon for investments in AIP. The Management Fee for the AIP and Private Funds is charged directly from the Fund. The Management 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 could 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.

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. 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) for AIP services valuating, structuring and funding the underlying Fund Investment or Direct Investment associated with the class. 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

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

Unless specifically agreed to with the client, no Advisory Fee, Product Fee, or performance-based fee is charged by Avalon for these types of specialty accounts.

Fees for Margin Accounts:

No Advisory Fee or Product 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 generally 0.25% annually, charged quarterly in arrears.

ADDITIONAL SERVICES AVAILABLE TO PRIVATE CLIENTS

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.

CONSULTING FEE

Avalon charges a fixed fee to evaluate, analyze and if necessary, assist the client in renegotiating fees and services provided by service providers and investment consulting arrangements. The fee is negotiable and based on the scope of the Client's needs or requirements. Fees generally will be payable 50% upfront and 50% at the conclusion of the initial engagement.

INVESTMENT MANAGEMENT SERVICES

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.

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.

Other than the Avalon Bexar Opportunities Account, Avalon generally does not charge performance-based fees on its Client Accounts but charges such fees on external Private Funds and AvalonPrivate 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.

Avalon charges a performance fee for the Avalon Bexar Opportunities Account. The annual performance fee is based on the total return in US dollars for the Account for each calendar year (or partial calendar year). The performance fee is a flat fee equal to 10% of the total positive return for the year in US dollars; provided, however, that the performance fee is only payable on the positive return in excess of 5%. No performance fee is charged if the Account returned a total return for the calendar year of less than 5%. The fee is calculated on 31 December unless the Account is closed, in which case it is calculated at the date of closing for the partial calendar year.

Because Avalon advises clients with respect to accounts that pay performance-based fees, the Firm

has a conflict of interest since its performance-paying accounts could generate more fees than 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.

Avalon recommends clients to investments in certain Private Funds managed by third-party advisers. In certain cases, Avalon is entitled to receive a percentage of the carried interest or performance based fees from the third-party advisers for the Clients it refers to the private fund. This creates a conflict of interest where Avalon has an incentive to recommend investments in these funds in order to collect additional fees

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. Additionally, certain products have investment 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.

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

In managing Client Accounts and providing recommendations to non-discretionary Clients, Avalon implements various asset allocations that are designed to achieve each client's individual risk tolerance and return objectives.. 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

Avalon investment strategies are managed by either: a) external investment managers, or b) Avalon portfolio managers who invest in liquid stocks and bond portfolios (collectively referred to as "portfolio managers"). The portfolio managers set the investment strategy, oversee the research process and make the final investment decisions in the particular strategy they oversee. Portfolio managers conduct fundamental research utilizing a broad spectrum of information, including but not limited to financial publications, third-party research materials, annual reports, prospectuses, regulatory filings, company press releases, corporate rating services, and meetings with management of various companies. Further, the Avalon's Investment Committee, comprised of senior leadership within the Investment Management department of the firm, approves and monitors all investment strategies currently available to Avalon clients.

INVESTMENT STRATEGIES

Avalon maintains a dedicated investment team to diligence and research various investment strategies. Avalon's investment process begins with sourcing asset managers, largely by tapping into the investment team's relationships and network, as well as from introductions from other external managers across the Avalon platform.

Diligence on new managers for the Avalon platform includes a series of calls discussing strategy, performance, business operations, manager track record, team, and several other areas. Following introductory calls and meetings, new strategies are previewed with members of the investment committee. When there is support from members of the committee in exploring further, additional diligence is completed including detailed benchmarking, reference calls, operational due diligence, legal due diligence, and in-person meetings.

As a final step, Avalon's investment committee convenes and votes on onboarding the new strategy. Once capital is deployed, the investment team reviews performance and holds update calls/meetings with managers on a regular basis, continuing to evaluate performance relative to peers.

Avalon can recommend that clients invest in externally managed investment strategies and private funds. Avalon generally does not use hedging, options or derivatives and leverage to achieve investment objectives.

Avalon can also recommend that clients invest in Avalon managed liquid markets strategies of each of the discretionary asset classes as follows:

FIXED INCOME

The Fixed income strategy has a number of underlying, specific sub-strategies that define more specifically what sector of fixed income securities a Client would be investing in. These generally include, but are not limited to investments in: short-term tax exempt securities, tax exempt and taxable bonds, municipal bonds, corporate bonds, and investment grade securities. The fixed income investments made by the strategy have varying degrees of risk and credit worthiness of the obligor. Clients will be allocated to account types that best fit their own risk framework, suitability requirements, and investment policy statement.

We will generally evaluate and select preferred securities and individual bonds based on a number of factors including, without limitation, rating, yield and duration.

EQUITY

Another strategy employed by Avalon is an equity strategy. The equity strategy, like the fixed income strategy has certain sub strategies that hold different equity investments based on a specific framework (e.g. US equity, non-US equity, REITs, ETFs, etc.). Generally, these account types will vary in the underlying account types to optimize capital appreciation, growth stock, different market capitalization requirements, ETF specific strategies, and income generating equities, to name a few. Clients will be allocated to an account type based on their relevant risk framework, suitability tests, and investment policy statements. Certain equity account types that Clients invest in may be allocated to and managed by third-party investment managers.

For internally managed strategies, equity portfolio managers analyze and evaluate potential securities investments that may incorporate, without limitation, charting analysis, fundamental analysis, technical analysis, and cyclical analysis.

Securities will be chosen in three principal ways:

- 1.) Quantitative screening to prioritize by valuation;
- 2.) Ideas generation from its extensive network of contacts; and
- 3.) Idea generation from in-house sources (publications, research reports, historic familiarity, etc.).

AVALON PRIVATE FUNDS & AVALON INVESTMENT PARTNERS ("AIPs")

Another category of investments that may be recommended to clients is the Private Fund and AIP products. These are investment vehicles offered to Avalon Clients through private funds and AIPs overseen by Avalon. The private funds will be managed by third-party advisers as well as direct investments or co-investments into companies. The AIPs are similar in strategy but the structure of the AIP itself is different from that of the private funds. Example AIP strategies include Diversifying Hedge Funds, Income Producing Real

Estate, Emerging Markets Debt and Equity. Most AIP strategies invest into a LP structure (vs. an SMA as most Equity and Fixed Income strategies listed above).

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 might 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.

Third Party Private Funds

The managers of these vehicles have broad discretion in selecting the investments. There are few limitations on the types of securities or other financial instruments which may be traded and no requirement to diversify. Hedge funds may trade on margin or otherwise leverage positions, thereby potentially increasing the risk to the vehicle. In addition, because the vehicles are not registered as investment companies, there is an absence of regulation and transparency.

There are numerous other risks in investing in these securities, including, but not limited to:

- Investors in recommended private investment funds bear the Advisory Fees and Product Fees payable to Avalon discussed in Item 5 (Fees and Compensation) of this Brochure in addition to asset-based fees, performance-based fees, carried interest, incentive allocation, and other compensation, fees, expenses and transaction charges payable to third party fund managers in consideration of their services to of the recommended private investment funds. Additionally, clients will indirectly bear their pro rata share of other expenses incurred by the fund, which typically include administrative, custodial, transaction and organizational costs,

accounting and audit, insurance, research, travel, and other costs necessary to carrying out the business of the fund and production of the fund's net asset values. Investors should review all fees and expenses as disclosed in the applicable fund governing documents to fully understand the total amount of fees to be paid in addition to Avalon's Advisory Fees and Product Fees.

- Private investment funds may be illiquid. The redemption or withdrawal provisions regarding the recommended private investment funds vary from fund to fund. Therefore, Avalon clients may not be able to withdraw their investment in a private investment fund promptly after it has made a decision to do so. The client must adhere to the liquidity terms set forth by the fund. Some funds may impose early redemption fees. This may adversely affect the client's investment return or increase the client's expenses and limit the client's ability to make offers to repurchase units.
- Private investment funds may not allow withdrawals and may distribute in-kind. Private funds may be permitted to redeem their interests' in-kind (distributing securities instead of cash). Thus, upon the client's withdrawal of an interest in a fund, it may receive securities that are illiquid or difficult to value. Limitations on the client's ability to withdraw its assets from funds may, as a result, limit each fund's ability to repurchase units from investors.
- Private funds may be difficult to value. The valuation of the client's investments in private funds is ordinarily determined based on valuations provided by the private funds and their auditors. Although Avalon reviews the valuation procedures used by the funds, Avalon may not be able to confirm or review the accuracy of such valuations. Avalon may face a conflict of interest in valuing private funds since the private funds' values will affect Avalon's compensation. To mitigate this potential conflict, Avalon relies on the valuations provided by the private funds.
- Avalon does not and will not control any of the recommended private investment funds. Avalon will monitor recommended private investment funds to detect any deviations from their stated investment mandate, but there is no guarantee that these funds will not deviate unexpectedly.

Clients should consult each fund's private placement memorandum and/or other documents explaining such risks prior to investing.

AVALON PRIVATE FUNDS

Risks to investing in private equity investments and the portfolio funds' expected use of leverage. Since a substantial portion of the certain fund will be allocated to the private equity funds, those funds' 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.

Clients will indirectly bear their pro rata share of other expenses incurred by the fund, which typically include administrative, custodial, transaction and organizational costs, accounting and audit, insurance, research, travel, and other costs necessary to carrying out the business of the fund and production of the fund's net asset values. Investors should review all fees and expenses as disclosed in the applicable fund governing documents to fully understand the total amount of fees to be paid.

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
- The Partnership does invest indirectly in digital assets. Digital assets are loosely regulated and there is no central marketplace for currency exchange. Supply is determined by a computer code, not by a central bank, and prices can be extremely volatile. Digital asset exchanges have been closed due to fraud, failure or security breaches. Any of the Partnership's funds that reside on an exchange that shuts down may be lost.

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 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 therecommendation) will receive compensation. This conflict is mitigated through disclosure and by Avalon's and Client Advisors' fiduciary duty to Avalon Clients.

It should be noted that certain private funds that are recommended to Clients are private funds for which AWM receives a placement agent fee for investors it provides to the private fund. This creates a conflict because AWM has an incentive to recommend the investments because of the compensation it receives and not necessarily because the investment is the most suitable for clients.

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 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 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 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 a 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 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.

Avalon GT, LLC is an entity managed by Avalon on behalf of certain clients, including Cynosure. Although Avalon does not hold an economic interest in Avalon GT, it manages the payment of expenses and distributions to the clients that hold interests in Avalon GT. Avalon GT is entitled to four percent of the revenues generated by GT Investment Partners, LP and related entities associated with the Ghost Tree funds. The Avalon clients that hold interests in Avalon GT have also invested in Avalon Investment Partners' Ghost Tree Class along with other Avalon clients. Avalon Wealth Management is entitled to a percentage of the revenues generated by GT Investment Partners, LP after Avalon GT receives its four percent, and the amount is dependent on the aggregate size of the investments that Avalon's clients have made in the Ghost Tree funds. This structure creates a conflict of interest as Avalon is motivated to invest client funds with GT Investment Partners, LP and the Ghost Tree funds.

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

Avalon acts as investment manager to numerous Client Accounts and the Avalon Private Funds. 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

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

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

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. The decision to invest in any private fund is made by the Client and the Client is under no obligation to make any private fund investment. 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 may 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 agreement prior to investment. Avalon and/or its personnel can and do have interests in these or other Private Funds.

ITEM 12 - BROKERAGE PRACTICES

SELECTION OF CUSTODIANS

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

Credit Strategy Trading

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 investment team and the outsourced trading desk
- 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.

At least annually, and as appropriate depending upon trading volume, Avalon's investment, trading, and operations staff, as appropriate, 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.

Internally Managed Equity Strategies

Avalon has engaged Capital Institutional Services, Inc. ("CAPIS") to assume activities around trade execution, matching, settlement, transaction cost analysis and (where applicable) foreign exchange transactions on an outsourced basis.

Avalon is responsible for overseeing CAPIS trade activity to ensure best execution on behalf of all our clients, and to maintain compliance with all applicable ethical, legal and regulatory requirements.

In arranging for the execution of client transactions, Avalon and/or its outsourced trading partner seeks to obtain best execution at favorable prices on behalf of its clients.

Private Fund and AIP Transactions

In some instances, Avalon has engaged AWM for placement services for the AIP Private Funds. In this arrangement, AWM receives a fee for arranging investments for certain Private Funds and AIPs.

RESEARCH AND OTHER SOFT-DOLLAR BENEFITS

Research services provided by a broker-dealer can be either proprietary (*i.e.*, created and provided by the broker-dealer, including tangible research as well as access to analysts and traders) or third-party (*i.e.*, created by a third-party but provided by the broker-dealer). The brokerage commissions used to acquire research in these arrangements are known as "**soft dollars**." Avalon uses soft dollars to acquire either or both types of research; however, Avalon will not enter into any agreement or understanding with a broker-dealer that would obligate Avalon to direct a specific amount of brokerage transactions or commissions for such research (or brokerage) services. 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

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. These client accounts will not always benefit directly from the soft dollar research or brokerage services received in return for a brokerage commission paid by such account. In effect, those accounts are not getting the benefit the soft dollar research or brokerage service. 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.

BROKERAGE FOR CLIENT REFERRALS

Avalon does not enter into agreements with or make commitments to, any broker-dealer that would bind Avalon to compensate that broker-dealer, directly or indirectly, for client referrals through the placement of brokerage transactions.

CLIENT DIRECTED BROKERAGE

Avalon generally selects broker-dealers to execute transactions for Clients, except for trades executed through an outsourced trading desk. 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 directed 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.

COMMISSION RATES OR EQUIVALENTS

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

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

CROSS TRADES

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”

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

Avalon's investment team (where Avalon is effecting the transactions) 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

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

Review of the Accounts is ongoing 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 on a periodic basis, 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 Avalon 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)-1. Rule 206(4)-1 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.**

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, in line with its fiduciary duty:

- 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.

A Client can 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.