

AVALON

PRIVACY POLICY

FACTS	WHAT DOES AVALON DO WITH YOUR PERSONAL INFORMATION?	Rev. May 2019
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.	
What?	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"> ▪ Social Security number and assets ▪ Investment experience and risk tolerance ▪ Account transactions and wire transfer instructions <p>When you are <i>no longer</i> our customer, we continue to share your information as described in this notice.</p>	
How?	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Avalon chooses to share; and whether you can limit this sharing.	

Reasons we can share your personal information	Does Avalon share?	Can you limit this sharing?
For our everyday business purposes— such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
For our marketing purposes— to offer our products and services to you	Yes	No
For joint marketing with other financial companies	No	We don't share
For our affiliates' everyday business purposes— information about your transactions and experiences	No	We don't share
For our affiliates' everyday business purposes— information about your creditworthiness	No	We don't share
For our nonaffiliates to market to you	No	We don't share

Questions?	Call 713-238-2050 or go to www.avalonadvisors.com
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Who we are

Who is providing this notice?

Avalon Advisors, LLC d/b/a Avalon Investment & Advisory, an SEC-registered investment adviser and/or its wholly-owned broker-dealer, Avalon Wealth Management LLC ("Avalon")

What we do

How does Avalon protect my personal information?

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.

How does Avalon collect my personal information?

We collect your personal information, for example, when you

- seek advice about your investments
- enter into an advisory contract
- show your government-issued ID
- buy securities from us
- make a wire transfer

Why can't I limit all sharing?

Federal law gives you the right to limit only

- Sharing for affiliates' everyday business purposes— information about your creditworthiness
- Affiliates from using your information to market to you
- Sharing for nonaffiliates to market to you
- State laws and individual companies may give you additional rights to limit sharing.

Definitions

Affiliates

Companies related by common ownership or control. They can be financial and nonfinancial companies.

- Our affiliates include Avalon Carlyle Private Equity Fund I GP, LLC, Avalon Global Real Assets Fund GP, LLC, Avalon High Income Municipal Fund GP, LLC, Avalon Private Energy Fund GP, LLC, and Avalon Wallace Investment Management LLC.

Nonaffiliates

Companies not related by common ownership or control. They can be financial and nonfinancial companies.

- Avalon does not share with nonaffiliates so they can market to you.

Joint marketing

A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

- Avalon doesn't jointly market.



Form ADV Part 2A - Firm Brochure

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

www.avalonadvisors.com

February 21, 2020

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 us at (713) 238-2050 or contact Peggy Lebert, our Chief Compliance Officer, at 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.

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

ITEM 2 - MATERIAL CHANGES

Since the annual amendment filed March 31, 2018, the following material changes have occurred:

As of December 20, 2018

- The investment strategies of the following Fixed Income discretionary Accounts are modified to reflect updated management guidelines, including removal of average life language; clarification of minimum credit ratings, target credit ratings, and the use of pre-refunded bonds:
 - Avalon Cash Account
 - Avalon Enhanced Liquidity Short Duration Account
 - Avalon Short Duration Fixed Income Account
 - Avalon High Grade Taxable Fixed Income Account
 - Avalon High Grade Tax Exempt Fixed Income Account
 - Avalon Taxable Fixed Income Account
 - Avalon Tax Exempt Fixed Income Account
 - Avalon Total Market Fixed Income Account
 - Avalon High Income Municipal Account

- We also note the use of taxable or non-taxable instruments in the Avalon Cash Account and the use of exchange traded funds (ETFs) and mutual funds in all Fixed Income strategies. These changes impact "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss."

- The following additional related entities are identified, along with any material conflicts of interest and the ways in which such conflicts are addressed:
 - Cynosure Advisors, LLC
 - Cynosure Management, LLC
 - Platform Partners, LLC

These changes impact "Item 10 - Other Financial Industry Activities and Affiliations."

As of December 21, 2018

Related entity Platform Partners, LLC is removed due to the resignation of its Chairman as one of the Elected Managers of Avalon. This change impacts "Item 10 - Other Financial Industry Activities and Affiliations."

As of December 31, 2018

Avalon offers the Avalon Growth Equity Account. This change impacts "Item 4 - Advisory Business" and "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss."

As of January 9, 2019

Related entity Cynosure Advisors, LLC is removed due to its withdrawal from investment adviser registration, with its business being consolidated into Cynosure Management, LLC. This change impacts "Item 10 - Other Financial Industry Activities and Affiliations."

As of February 1, 2019

Avalon eliminates the Avalon Global Energy Account and the Avalon Total Return Account. These changes impact "Item 4 - Advisory Business" and "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss."

As of April 1, 2019

- Avalon eliminates the Avalon Balanced Portfolio. This change impacts "Item 4 - Advisory Business" and "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss."
- Avalon updates the name of the Avalon Growth Equity Account to Avalon Quality Growth Account and adds the Avalon Smart Beta Account and Avalon Liquid Alternatives Account. These changes impact "Item 4 - Advisory Business" and "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss."
- Avalon offers the Avalon Fee schedule to provide access to asset allocation across internal or externally managed investment strategies, including passively managed products selected by the Investment Management team. All Avalon separately managed accounts are included at the Avalon Fee rate which is based on the total assets under management, excluding Private Funds and Avalon Private Funds. This change impacts "Item 5 – Fees and Compensation."
- Avalon updates and streamlines the existing product fee schedules for separately managed accounts. The fee schedule for Managed Cash accounts (Avalon Cash Account, Avalon Enhanced Liquidity Short Duration Account, and Avalon Short Duration Fixed Income Account) is eliminated; Managed Cash accounts remain on the same fee schedule, and the balances are now combined with Fixed Income Account balances when computing fees and fee breakpoints. The Avalon SMID Cap Equity Account fee schedule is eliminated and SMID Cap Equity balances now are included with other Avalon Equity Accounts when computing fees and fee breakpoints. The Avalon Balanced Portfolio fee schedule is eliminated. The highest tier of the Avalon High Income Municipal Account fee schedule is eliminated, and the rate on the remaining tiers is decreased. These changes impact "Item 5 – Fees and Compensation."

As of April 8, 2019

- Avalon adopts the doing business as (DBA) name "Avalon Investment & Advisory" as its primary business name as shown on the cover of this brochure and identified in "Item 4 – Advisory Business."

As of May 1, 2019

- Avalon offers the Avalon American Investor Account, which was last offered in 2015 as the Avalon American Equity Account, and offers the Avalon Diversified ETF 2 Account and the Avalon Diversified ETF 3 Account. These changes impact "Item 4 - Advisory Business" and "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss."

As of July 1, 2019

- Avalon provides investment management services to Avalon Investment Partners, LLC, a private fund. This change impacts "Item 4 - Advisory Business," "Item 5 - Fees and Compensation," "Item 7 – Types of Clients," "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss," "Item 10 - Other Financial Industry Activities and Affiliations," and "Item 13 – Review of accounts."

As of September 22, 2019

- Avalon offers the Avalon Balanced Taxable Income ETF Account and the Avalon Balanced Tax Exempt Income ETF Account. These changes impact "Item 4 - Advisory Business" and "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss."

As of December 18, 2019

- Avalon offers the Avalon Large Cap Growth Account, formerly known as the Avalon American Investor Account. This change impacts "Item 4 - Advisory Business" and "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss."

As of December 31, 2019

- Avalon offers the Avalon External Manager SMA Account and the Avalon Asset Allocation Account. These changes impact "Item 4 - Advisory Business" and "Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss."

As of February 21, 2020

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

While the material changes to this brochure have been highlighted above, clients may request a copy of the Form ADV Part 2A at any time without charge by sending a written request to our Chief Compliance Officer, Peggy Lebert, at 2929 Allen Parkway, Suite 3000, Houston, Texas 77019-7124 or by email to compliance@avalonadvisors.com.

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ITEM 4 - ADVISORY BUSINESS

ADVISORY FIRM DESCRIPTION

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

TYPES OF ADVISORY SERVICES

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

TAILORED ADVISORY SERVICES

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

Fixed Income

- Avalon Cash Account
- Avalon Enhanced Liquidity Short Duration Account
- Avalon Short Duration Fixed Income Account
- Avalon High Grade Taxable Fixed Income Account

Equity

- Avalon Smart Beta Account
- Avalon Core Equity Account
- Avalon U.S. Value Equity Account
- Avalon Equity Income Account

(Chart continued on next page)

Fixed Income

Equity

- Avalon High Grade Tax Exempt Fixed Income Account

- Avalon Equity Income (No MLPs) Account

- Avalon Taxable Fixed Income Account

- Avalon Equity Income (No MLPs) Account Dividend Sweep Account

- Avalon Tax Exempt Fixed Income Account

- Avalon International Value Equity Account

- Avalon Total Market Fixed Income Account

- Avalon International Equity Account

- Avalon High Income Municipal Account

- Avalon International Equity Income Account

- Avalon Custom Fixed Income Account

- Avalon Global Equity Account

- Avalon Global Equity Income Account

- Avalon Large Cap Growth Account

- Avalon Quality Growth Account

- Avalon SMID Cap Equity Account

- Avalon Concentrated Equity Account

- Avalon MLP Account

- Avalon Diversified ETF Account

- Avalon Diversified ETF 2 Account

- Avalon Diversified ETF 3 Account

- Avalon Balanced Taxable Income ETF Account

- Avalon Balanced Tax Exempt Income ETF Account

- Avalon Global Macro Account

(Chart continued on next page)

Fixed Income

Equity

- Avalon Income ETF Account
- Avalon Growth and Income ETF Account
- Avalon Growth ETF Account
- Avalon Aggressive Growth ETF Account
- Avalon Liquid Alternatives Account
- Avalon External Manager SMA Account
- Avalon Asset Allocation Account

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

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

Each Specialty Account is described later in this section.

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

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

PRIVATE FUNDS

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

If a Private Client invests in an Avalon Private Fund or Private Fund, the value of such interests is based on the fund investment and is not also charged an Advisory Fee on top of the fund fees. The annual percentage rate for the fees charged for an Avalon Private Fund may be based on the size of the investment in the fund, on the blended rate paid by the individual Client for equity investments, on the Advisory Fee rate for separately managed accounts, or may be negotiated between the Client and Avalon. Investments made in Avalon Investment Partners, LLC ("AIP"), described later in this section, are made at the Class level, and not on an overall, rate for the AIP fund. Fees are further described in Item 5 – Fees and Compensation.

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

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

Each Avalon Private Fund will be organized as a limited partnership or limited liability company under the laws of the State of Delaware or another appropriate jurisdiction, for which an Avalon affiliate will usually serve as general partner or managing member, as applicable, but is not the investment advisor to the fund. The exception to this is AIP, where Avalon Advisors, LLC is both the investment adviser and the sole managing member. Avalon expects each private fund on its platform to qualify for an exemption from the definition of "investment company" under the Investment Company Act

of 1940, as amended ("1940 Act") under 1940 Act Section 3(c)(7) and to offer interests to Investors pursuant to Regulation D or Regulation S under the Securities Act of 1933, as amended ("1933 Act"). As a result, this disclosure brochure ("Brochure") may discuss information relevant to such investors, as necessary or appropriate. **Nonetheless, this Brochure is designed solely to provide information about Avalon and should not be considered to be an offer of interests in any Private Fund. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this Brochure is designed solely to provide information about Avalon for the purpose of compliance with certain obligations under the Advisers Act and, as such, responds to relevant regulatory requirements under the Advisers Act. This information is more limited than the information provided in a PPM. The PPM governs any conflict between discussions herein and similar or related discussions in any PPM.

AVALON PRIVATE FUNDS

Avalon Carlyle Private Equity Fund I, LP

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

Avalon Global Real Assets Fund, LP

The Avalon Global Real Assets Fund, LP ("AGRA") is a fund-of-funds that seeks attractive returns through investing in a portfolio of underlying private equity funds (the "**Targeted Funds**"), each of which are sponsored or advised by Carlyle Investment Management L.L.C. and its affiliates (collectively, "**Carlyle**"), or other third-party investment managers (together with Carlyle, the "**Portfolio Managers**"). The fund is closed to new investors.

Avalon High Income Municipal Fund, L.P.

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

Avalon Private Energy Fund, LP

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

Avalon Investment Partners, LLC

Avalon Investment Partners, LLC ("AIP"), was formed in 2019 as a holding company vehicle to allow clients of Avalon Advisors, LLC ("Avalon") to aggregate commitments to, and to make investments in, alternative asset classes. AIP is structured as a Delaware limited liability company with multiple membership classes; each membership class represents a different investment in an underlying fund (a "Fund Investment") or operating company (a "Direct Investment"). AIP is designed to allow Clients to make multiple investments while minimizing the administration of owning multiple Fund Investments and Direct Investments. The structural objective of AIP is to provide an improved alternatives investment experience to investors associated with Avalon through administrative simplicity, institutional access and favorable pricing, portfolio customization, and cash flow management.

Avalon is the sole managing member of AIP and is responsible for the overall management and control of AIP's operations and investment activities. As such, Avalon will be responsible for providing or arranging for all advisory, management and administrative services for AIP. Avalon has engaged Cynosure Management, LLC ("Cynosure") as a non-discretionary sub-advisor and administrator for AIP pursuant to a Sub-Advisory and Administrative Services Agreement (the "Cynosure Agreement"). Cynosure manages an investment platform structured in substantially the same manner as AIP called Cynosure Investment Partners, LLC ("CIP"). AIP and CIP are expected to co-invest in Fund Investments and Direct Investments where the investment opportunity is Avalon-approved for AIP. Pursuant to the Cynosure Agreement, Cynosure will perform the same sourcing, evaluation and investment deal negotiation and documentation services for AIP as it does for CIP. Hence, AIP achieves efficiencies in investment opportunities and costs not available on a standalone basis.

SPECIALTY ACCOUNTS

Funding Account (Non-Discretionary or Discretionary)

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

Permanent Cash Reserve Account

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

Client Directed Portfolio Account

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

Client Picks Account

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

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

Restricted or Control Stock Account

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

Margin Account

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

Alternative Investment Account

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

ADDITIONAL SERVICES AVAILABLE TO PRIVATE CLIENTS

CONSOLIDATED REPORTING SERVICES

Upon the client's request, Avalon reports on assets not held in an Avalon Account. Avalon provides manual tracking of such assets for informational purposes only and is not responsible for investment decisions related to such assets. Avalon will manually enter information about these assets from statements provided by the Client on a periodic basis (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 Client request, Avalon provides additional investment advisory advice and services on investment accounts, including those accounts not managed by Avalon. These services include providing the following for such Clients:

Advise and assist Client in the development of an investment policy statement including the determination of short and long-term investment goals, downside risk tolerance, target returns, and asset allocation ranges.

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

SUB-ADVISORY/WRAP/SEPARATE MANAGED ACCOUNT PROGRAM ENGAGEMENTS

Sub-advisory Engagements

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

If the custodian/broker-dealer is determined by the unaffiliated investment advisor, Avalon will be unable to negotiate commissions and/or transaction costs, and/or seek better execution. As a result, a client may pay higher commissions or other transaction costs or unaffiliated investment spreads, or

receive less favorable net prices, on transactions for the account than would otherwise be the case through alternative clearing arrangements recommended by Avalon. Higher transaction costs adversely impact account performance.

Wrap/Separate Managed Account Program Engagements

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

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

MATTERHORN MODEL PORTFOLIO RELATIONSHIPS

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

Clients who obtain Matterhorn's services on this basis, through an intermediary, usually must complete account documentation with the intermediary and custodian. The terms and conditions of these arrangements vary, including the fees paid to and services provided by or through the Financial Firm, and contact between Matterhorn and such clients will typically take place through the relevant intermediary, if at all. The Financial Firm maintains the sole responsibility to implement the model portfolio and may choose to modify or reject a model recommendation provided by Matterhorn.

CLIENT ASSETS UNDER ADVISEMENT

At December 31, 2018, the Firm had \$7.999 billion under advisement. This includes: (1) \$6.305 billion of discretionary assets; (2) \$1.083 billion of other non-discretionary assets; and (3) \$0.611 billion of assets invested in Private Funds or Separately Managed Accounts which are not under Avalon's direct management. For this latter category, the Firm's Client Advisors have recommended that qualified Clients invest in these Private Funds or Separately Managed Accounts and such Clients have followed the Firm's advice.

ITEM 5 - FEES AND COMPENSATION

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 a Chief Investment Officer, Portfolio Managers and a Chief Economist, who work cooperatively with our Client Advisory teams in recommending and implementing asset allocations. Each client is offered personalized asset allocation recommendations and investment management services based on an analysis of the client's financial circumstances, income requirements, risk tolerance, investment objectives, and other pertinent factors. The fee is based on a percentage of assets in client accounts, not including allocations to existing Avalon Private Funds or Private Funds.

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

Below is the standard Advisory Fee schedule:

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

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

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

PRODUCT FEES

Avalon's product-based fees are described generally below and/or in the governing documents and PPM of each Avalon Private Fund or Private Fund. Except as otherwise negotiated with the Client, or as described below, fees are calculated based upon the aggregate market value of all assets under management within the Client's Account(s), including allocations to cash and accrued interest. Avalon may group multiple Accounts of a Client (or group of Clients, such as a family) together for fee calculation and billing purposes, and may, but is not required to, negotiate fee types, rates or breakpoints that apply based on assets of the relationship.

Fees may change over time and different fee schedules may apply if Avalon accepts Clients other than Private Clients. As discussed below, fees for Separately Managed Accounts are negotiable. Fees for Avalon Private Funds and Private Funds generally are not negotiable. Nevertheless, Avalon reserves the right to waive or reduce the fees charged to Investors in an Avalon Private Fund, in its sole and absolute discretion; Avalon also may have negotiated with the advisor of a Private Fund to waive or reduce the fees charged to investors in the Private Fund.

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

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

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

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

FEE DISPERSION

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

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

Any questions: Avalon's Chief Compliance Officer, Peggy Lebert, remains available to address any questions that a client or prospective client may have regarding advisory fees.

FEE SCHEDULES

As noted above, fees for Private Clients depend, in part, 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. Fee schedules and minimum investments for the various accounts are described below:

FIXED INCOME

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

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

Fees for these accounts are charged quarterly in arrears.

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

TOTAL MARKET FIXED INCOME

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

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

Fees for these Accounts are charged quarterly in arrears.

HIGH INCOME MUNICIPAL

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

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

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

AVALON EQUITY

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

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

Fees for these accounts are charged quarterly in arrears.

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 "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), exchange traded fund ("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. Such fees compensate the manager and other service providers of the fund and are separate from, and in addition to, the fees paid to Avalon for selecting and monitoring those investments. These fees are fully disclosed in each fund prospectus or PPM which is sent to each Client by the authorized party of the pooled vehicle.

PRIVATE FUNDS

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

- *management fees*, based on a percentage of assets under management (usually 1.50% per annum)
- *administrative fees*, based on a percentage of assets under management usually 0.00% to 0.10% per annum)

- *incentive or performance compensation, which may be an allocation of additional units of interest in the Private Fund, equal to a percentage of capital appreciation (usually 15% to 20% per annum)*
- *additional sales compensation, including that paid to AWM as a broker-dealer for placing Clients in specific Private Funds*

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

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

AVALON PRIVATE FUNDS

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

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

Avalon Global Real Assets Fund, LP ("AGRA") will pay the Management Fee quarterly in advance commencing on May 1, 2014, and continuing through April 30, 2020, as follows: (i) 1.00% of the Commitments made by Limited Partners holding Class A Interests; (ii) 0.75% of the Commitments made by Limited Partners holding Class B Interests; (iii) 0.50% of the Commitments made by Limited Partners holding Class C Interests; and (iv) 0.35% of the Commitments made by Limited Partners holding Class D Interests. Limited Partners holding Class E Interests will not be charged a Management Fee. All operating costs of AGRA, other than legal, audit, tax preparation expenses

and third-party expenses directly related to the administration of AGRA, as reasonably determined by the General Partner, and costs and expenses related to the investment activities of AGRA, will be borne by the General Partner and are intended to be covered in part by the Management Fee. AGRA will pay all costs and expenses incurred relating to its organization and establishment and the costs incurred in connection with the initial offering of Interests of AGRA ("Organizational Expenses"). Organizational Expenses of AGRA were amortized over a period of up to 36 months from the date AGRA commences operations. Please refer to AGRA's documents for details concerning the partnership's payment of fees and expenses.

The Management Fee paid by *Avalon High Income Municipal Fund, L.P.* ("High Income Municipal Fund") will accrue monthly in an amount equal to 0.0625% of the total market value of the High Income Municipal Fund's net assets as of the end of each month (*i.e.*, 0.75% per annum) before giving effect to any withdrawals, and will be paid quarterly in arrears on or before five days after the end of such quarter. At any time, the High Income Municipal Fund may reimburse Avalon or an affiliated entity for the organizational expenses advanced. The High Income Municipal Fund will pay all costs incurred 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.

Avalon Private Energy Fund, LP ("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 costs and expenses incurred relating to its organization and establishment and the costs incurred in connection with the initial offering of Interests of APEF ("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 may, 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.

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

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

Since Avalon Clients already pay an advisory fee to Avalon, Avalon does not expect to receive any management fee from Avalon Clients that invest in AIP. However, Avalon reserves the right to receive a management fee from AIP in respect of an investor in a class so long as the aggregate of all fees borne by the investor in respect of that class, other than the advisory fee such investor pays directly to Avalon, do not exceed 2% per annum of the amount such investor invests in or commits to the class.

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

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

SPECIALTY ACCOUNTS

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

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

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

Fees for Margin Accounts:

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

Fees for Client Picks Accounts:

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

ADDITIONAL SERVICES AVAILABLE TO PRIVATE CLIENTS

CONSOLIDATED REPORTING SERVICES

Clients investing in Avalon managed portfolios may request that Avalon report on assets not held in any Avalon Account. Avalon does not charge a fee for reporting on such assets.

AVALON FAMILY OFFICE FEES

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

SPECIAL FEE ARRANGEMENTS

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

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 may offer a discounted fee schedule when the primary advisor assumes certain administrative functions that would otherwise be provided by Avalon. These fees may 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 may qualify the Client for a reduced or waived commission rate for transactions executed through the primary advisor or an affiliate of the advisor (the "preferred broker"). In these circumstances, the Client 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

Avalon may 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 may include consultations about potential and actual introductions of Clients to the other advisor. In most cases, Avalon will continue to provide "Client Servicing." Client Servicing includes providing the Client with periodic reports, communicating with the Client regarding the other advisor's investment 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 by the client to that manager. Avalon provides a disclosure statement clarifying the fees and relationship between the two advisors.

VALUATION

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

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

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

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

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

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

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

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

Because Avalon recommends both accounts which pay performance-based fees and those that do not, the Firm has an incentive to favor its performance-paying accounts over those that do not.

This conflict is mitigated through Avalon's policy and practice of treating all Client Accounts fairly and equitably and through attention to each Account and Avalon Private Fund's investment objective.

ITEM 7 - TYPES OF CLIENTS

Avalon provides investment advisory services to:

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

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

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

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

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

depend on the nature of the Account, its investment strategy or strategies and the types of securities held by the Account.

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 may be 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 uses a combination of analysis types to evaluate investments for client accounts:

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

Sources of information used in Avalon's analysis:

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

Avalon investment strategies used to implement investment advice:

- Long-term purchases (securities held at least a year)
- Short-term purchases (securities sold within a year)
- Trading (securities sold within 30 days)

- Short sales
- Margin transactions
- Option writing, including covered options, uncovered options or spreading strategies

INVESTMENT STRATEGIES

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

Avalon may suggest that Clients invest in private funds, some of which are managed by Avalon. Avalon generally does not use hedging, options or derivatives and leverage to achieve investment objectives. For temporary defensive purposes, the Firm may hold a significant portion of an Account's assets in cash or cash equivalents if warranted.

Investment strategies of each of the discretionary Accounts follow:

FIXED INCOME

- **Avalon Cash Account** will be invested in short-term tax-exempt or taxable securities with a maximum maturity of 18 months. From time to time, at the Firm's discretion, a significant portion of the funds will be invested in par-reset securities with, at most, monthly liquidity. All securities will be investment grade or the short-term equivalent of investment grade at the time of purchase and the portfolio will target an average credit quality of AA- or better. Pre-refunded municipal bonds will typically be considered AAA rated. In addition, the Firm may utilize a combination of short-term mutual funds and exchange traded funds limited to a two-year duration target or less. Mutual funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Enhanced Liquidity Short Duration Account** will be invested in tax-exempt or taxable bonds, as market conditions warrant. The Account will invest at least 80% of its value in high grade securities and at all times will invest 100% of its value in investment grade securities. An investment is considered high grade if, at the time of purchase, it is rated at least AA- or its equivalent investment grade by at least one nationally recognized statistical rating organization (NRSRO) and is considered investment grade if, at the time of purchase, it is rated at least BBB- or its equivalent investment grade by at least one NRSRO. Pre-refunded municipal bonds will typically be considered AAA rated. The account will invest 80% of its value in securities with a maximum maturity of 18 months and the maximum maturity of any security in the account will not exceed 5 years. In addition, the Firm may utilize a combination of short-term mutual funds and exchange traded funds limited to a two-year duration target or less. Mutual funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.

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

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

- **Avalon Tax Exempt Fixed Income Account** will be invested in investment grade municipal bonds whose interest payments are free from United States federal income tax. The Account will invest in investment grade securities. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- or its equivalent by at least one nationally recognized statistical rating organization (NRSRO) or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Notwithstanding the foregoing, subject to certain minimums and upon the discretion of the Avalon investment team, the Account may also be invested in one or more investment grade diversified mutual funds and/or exchange traded funds. Mutual funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Total Market Fixed Income Account** will be invested in USD-denominated non-equity securities, commonly referred to as "fixed income." The Account usually will invest at least 60% of its value in investment grade securities, although market conditions may warrant lower levels of investment grade exposure from time to time. An investment is considered investment grade if, at the time of purchase, it is rated at least BBB- or its equivalent investment grade by at least one nationally recognized statistical rating organization (NRSRO) or, if unrated, reasonably believed by the manager to be of equivalent credit quality. Upon the discretion of the manager, the account may also be invested in one or more diversified mutual funds and/or exchange traded funds (ETFs), including inverse ETFs. Mutual funds and ETFs inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon High Income Municipal Account** will invest primarily in tax-exempt bonds. The Account's investment objectives are to provide income free from federal taxation and to provide potential taxable capital appreciation. The Account will invest in debt securities rated investment grade or below investment grade, or non-rated debt securities whose underlying fundamentals are deemed by the portfolio managers to be creditworthy. Upon the discretion of the portfolio managers, the Account may also be invested in one or more diversified funds or exchange traded funds, the diversified nature of which may result in the Account holding non-rated securities, below investment grade rated or investment grade rated securities. Funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged. When deemed appropriate, the portfolio managers may use leverage and/or derivatives to offset or establish positions in the Account, but in no event will leverage exceed 10%.
- **Avalon Custom Fixed Income Account** will be invested within client-mandated guidelines that draw on the capabilities of the Avalon Fixed Income Investment Team and may share characteristics with one or more of the strategies listed above. In addition to the strategies currently being managed, market conditions may warrant the purchase of securities that are opportunistic in nature, without regard to whether the securities exist in any Avalon managed strategies. Each custom account requires written investment guidelines agreed upon by both the client and Avalon. The account may also be invested in one or more investment

grade diversified index funds and/or exchange traded funds. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.

EQUITY

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

and ETF dividends. However, dividends will not be reinvested by the portfolio manager, but rather swept to a separate client cash account. From time to time we may invest in non-U.S. securities, generally international securities that trade in the United States using American Depositary Receipts.

- **Avalon International Value Equity Account** will be managed in accordance with a master equity portfolio. The international value portfolio seeks to hold 25 securities. The manager uses a rigorous and disciplined process to identify and invest in undervalued securities that are believed to maximize downside protection and upside appreciation. Emphasis is placed on relative valuation, capital efficiency, balance sheet health, earnings quality, and margins. The underlying companies are domiciled outside the U.S.
- **Avalon International Equity Account** will be focused on long-term capital appreciation, investing in international equities, including those in emerging markets. Management does not include the use of derivative instruments or currency hedging but will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges, and exchange traded funds. Exchange traded funds inherently contain additional expenses. The portfolio position sizes generally will range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights generally will not exceed two times the index sector weights or 25% of the portfolio and the minimum market capitalization is a function of liquidity. Mutual funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon International Equity Income Account** will be focused on both income and long-term capital appreciation, investing in international equities, including those in emerging markets. The Account will be constructed to generate a diversified and growing stream of income. Management does not include the use of derivative instruments or currency hedging but can include writing covered calls if allowed by the client. Management will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges, and exchange traded funds. Exchange traded funds inherently contain additional expenses. A minimum of 75% of the portfolio will be invested in common stock, while the remainder can be invested in convertible bonds, preferred stock or investment grade corporate bonds. The portfolio position sizes generally will range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights generally will not exceed two times the index sector weights or 25% of the portfolio. Mutual funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Global Equity Account** will be focused on long-term capital appreciation, investing in both U.S. and international equities, including those in emerging markets. Management does not include the use of derivative instruments or currency hedging but will include the use of American Depositary Receipts, Global Depositary Receipts, equities listed on foreign exchanges, and Exchange Traded Funds. The portfolio position sizes generally will range from 1% to 5% for developed markets and 0.5% to 2.5% for emerging markets. The portfolio sector weights generally will not exceed two times the index sector weights or 25% of the portfolio and the minimum market capitalization is a function of liquidity. Index funds and exchange

traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.

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

- **Avalon MLP Account** will be managed as a long-only portfolio focused on the production, transportation, refining and marketing of North American natural resources utilizing exposure to the securities of Master Limited Partnerships (MLPs). The primary objective of the account is total return with a heavy emphasis on income generation. The account is structured to invest primarily in the securities of energy-based MLPs but does maintain the flexibility to invest in other energy-related securities at the manager's discretion. Partnerships that produce any income and/or gains derived from the exploration, development, mining or production, processing, refining, or transportation (including pipelines transporting gas, oil, or products thereof) of any mineral or natural resource may qualify under Section 7704 (d)(1)(e) of the Internal Revenue Code as an MLP.
- **Avalon Diversified ETF Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The portfolio tactically allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the investment environment, and the relative attractiveness of various asset classes in its universe. Based on its assessment of the investment environment, equity exposure in the portfolio is generally expected to range from 80% to 100%. The portfolio invests primarily in exchange traded funds (ETFs) to achieve its objectives. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Diversified ETF 2 Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The portfolio tactically allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the investment environment, and the relative attractiveness of various asset classes in its universe. Based on its assessment of the investment environment, equity exposure in the portfolio is generally expected to range from 20% to 100%, and the portfolio may periodically hold high levels of cash and/or fixed income investments for defensive purposes. The portfolio invests primarily in exchange traded funds (ETFs) to achieve its objectives. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged. The portfolio is primarily intended for use by IRA accounts, other tax-deferred accounts, or tax-exempt accounts.
- **Avalon Diversified ETF 3 Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The portfolio tactically allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the investment environment, and the relative attractiveness of various asset classes in its universe. Based on its assessment of the investment environment, equity exposure in the portfolio is generally expected to range from 20% to 100%, and the portfolio may periodically hold high levels of cash and/or fixed income investments for defensive purposes. The portfolio invests primarily in exchange traded funds (ETFs) to achieve its objectives. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged. The portfolio is primarily intended for use by taxable accounts.

- **Avalon Balanced Taxable Income ETF Account** will be managed in accordance with a master portfolio of exchange traded funds (ETFs) producing taxable income from the bond allocation with the goal of producing attractive risk-adjusted returns. The portfolio invests primarily in ETFs and cash in order to achieve its objectives. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged. The portfolio is primarily intended for use by IRA accounts, other tax-deferred accounts, or tax-exempt accounts.
- **Avalon Balanced Tax Exempt Income ETF Account** will be managed in accordance with a master portfolio of exchange traded funds (ETFs) producing primarily tax-exempt income from the bond allocation with the goal of producing attractive risk-adjusted returns. The portfolio invests primarily in ETFs and cash in order to achieve its objectives. Index funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged. The portfolio is primarily intended for use by taxable accounts.
- **Avalon Global Macro Account** will be managed in accordance with a master equity account whose investment objective is to seek out and invest in emerging opportunities as the economic data presents them. The manager utilizes a thesis-driven, top-down investment approach driven by a thematic screen for countries, regions, and sectors whose fundamentals are believed to be positioned to benefit from short, medium and longer-term economic trends. This will typically be accomplished by between 15-25 positions with a target weighting of 2%-10%. The portfolio invests primarily in exchange traded funds (ETFs) to achieve its objectives and may include inverse ETFs and index funds. Mutual funds and exchange traded funds inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Income ETF Account** will be managed in accordance with a master portfolio whose investment objective is yield and dividend income with a secondary objective of long-term capital appreciation. The portfolio allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the risk factors, and the suitability of various asset classes to achieving the investment objectives. The portfolio invests primarily in exchange traded funds (ETFs) to achieve its objectives. Index funds and ETFs inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Growth and Income ETF Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation with yield and dividend income. The portfolio allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the risk factors, and the suitability of various asset classes to achieving the investment objective. The portfolio invests primarily in exchange traded funds (ETFs) to achieve its objectives. Index funds and ETFs inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Growth ETF Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The portfolio allocates investments

in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the risk factors, and the suitability of various asset classes to achieving the investment objective. The portfolio invests primarily in exchange traded funds (ETFs) to achieve its objectives. Index funds and ETFs inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.

- **Avalon Aggressive Growth ETF Account** will be managed in accordance with a master portfolio whose investment objective is long-term capital appreciation. The portfolio allocates investments in U.S. and non-U.S. equities, fixed income investments and other classes of assets based on its assessment of the risk factors, and the suitability of various asset classes to achieving the investment objective. The portfolio invests primarily in exchange traded funds (ETFs) to achieve its objectives. Index funds and ETFs inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Liquid Alternatives Account** will be managed in accordance with a master portfolio whose investment objective is to provide diversification and risk reduction via liquid exposure to alternative investment strategies using an academically-rigorous and proprietary risk-targeted portfolio construction. The portfolio invests primarily in mutual funds and exchange traded funds (ETFs) to achieve its objectives. Mutual funds and ETFs inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon External Manager SMA Account** provides exposure to targeted equity, fixed income or alternative investment strategies through investing in mutual funds or ETFs. Each investment product available has been evaluated by Avalon's Due Diligence Committee and approved by Avalon's Investment Policy Committee. Mutual funds are chosen primarily based on the investment process with other considerations including performance, expenses, and tax efficiency. The primary criteria in choosing ETFs, aside from the specific desired market exposure and adequate liquidity to handle asset flows, are low tracking error, low expense ratio, and tax efficiency. Mutual funds and ETFs inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.
- **Avalon Asset Allocation Account** provides exposure to targeted equity, fixed income or alternative investment strategies through investing in a separately managed account (SMA) strategy provided by an external manager. Each external investment strategy available has been evaluated by Avalon's Due Diligence Committee and approved by Avalon's Investment Policy Committee. External investment strategies are chosen primarily based on the investment process with other considerations including performance, expenses, and tax efficiency. These strategies will primarily hold individual securities but could utilize mutual funds and ETFs that inherently contain additional expenses. These additional expenses are not deducted from the Avalon management fees charged.

RISK OF LOSS

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 may cause the value of the securities to decline.

Interest Rate and Credit Risk – The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, 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 may be less liquid than for taxable bonds. A portion of the income may be taxable. Some investors may be subject to Alternative Minimum Tax (AMT). Capital gains distributions, if any, are taxable.

Equity Securities Risk – Equity securities are subject to changes in value. 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.

Compounding Risk – Certain index exchange traded funds (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 may reduce returns and/or increase volatility. Leverage may involve the use of various financial instruments or borrowed capital in an attempt to increase the return of an investment. The use of leverage involves risk, 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.

PRIVATE FUNDS

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

AVALON PRIVATE FUNDS

Avalon Carlyle Private Equity Fund I, LP (“Avalon Carlyle”)

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

Avalon Global Real Assets Fund, LP (“AGRA”)

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

Avalon High Income Municipal Fund, LP (“High Income Municipal Fund”)

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

to have similar characteristics. **Please refer to the High Income Municipal Fund documents for a detailed discussion regarding its risks beyond those listed above under Municipal Security Risk.**

Avalon Private Energy Fund, LP (“APEF”)

APEF's investment objective is to provide investors with attractive returns through investing its assets in two Portfolio Funds, Bayou City Energy II, L.P., and EnCap Flatrock Midstream Fund IV, L.P., each of which is sponsored or advised by a third-party “Portfolio Manager,” respectively Bayou City Energy Management LLC (“Bayou City”) or (“EnCap Flatrock Midstream” a joint venture between Flatrock Energy Advisors, LLC (“Flatrock”) and EnCap Investments, L.P. (“EnCap”).) The Portfolio Managers, in turn, seek to primarily make direct private equity investments in assets or portfolio companies in the oil and gas sectors.

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

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

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

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, Avalon Investment Partners, LLC (“AIP”) is intended, over time, to permit Avalon Clients to tailor their investments to their own particular risk profile, interests, and portfolio construction.

AIP is generally invested in investment vehicles (“Fund Investments”) managed by third-party investment managers, and in direct investments (“Direct Investments” and, together with the Fund Investments, “Underlying 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 may impose additional risks of liability (e.g. environmental damage, product defects, failure to supervise management and employees, violations of law, etc.)
- 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 may 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 may cause certain information to be publicly available

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

ITEM 9 - DISCIPLINARY INFORMATION

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

ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Avalon has several related entities:

Avalon Wealth Management LLC ("AWM") is a broker-dealer wholly owned by Avalon which was formed to engage in placements of private investment funds. As required of a broker-dealer, AWM

is registered with the SEC and is a member of FINRA. All registered representatives of AWM also are investment advisor representatives of Avalon ("Client Advisors"). These registrations permit AWM and its registered personnel to receive sales compensation on assets placed in Private Funds. This compensation creates a conflict of interest with Avalon clients when AWM representatives recommend to Clients they invest in a Private Fund for which AWM (and/or its personnel making the recommendation) will receive compensation. This conflict is mitigated through disclosure and by Avalon's and Client Advisors' fiduciary duty to Avalon clients.

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

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

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

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

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

Avalon may 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 fully disclosed in the required Solicitor's Written Disclosure Document and is mitigated

through a disciplined approach to assessing the Client's investment objectives and risk tolerance and ensuring that the Client has received the solicitation documents and has been apprised of the financial arrangements between Wallace and Avalon.

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

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

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

Cynosure Management, LLC, part of The Cynosure Group, an investment firm based in Salt Lake City, Utah, is an SEC-registered investment adviser engaged in providing private investment advisory and wealth management services. This affiliated entity is under common control with Avalon because it is controlled by individuals who also are Elected Managers of Avalon.

Cynosure Management provides investment advice on private equity and other alternative investments; it is the manager of two pooled investment vehicles which jointly own a minority interest in Avalon. 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 clients of Avalon. The conflicts arising from these relationships were outlined in the fund offering documents provided to, and the Placement Agent Disclosure agreement acknowledged by, each fund investor.

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

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

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

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

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

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

MISUSE OF NONPUBLIC INFORMATION

Avalon and its related persons may, from time to time, come into possession of material nonpublic and other confidential information which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Avalon may be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, regardless of whether such other person is an advisory Client. Accordingly, should Avalon come into possession of material nonpublic or other confidential information with respect to any company, it may be prohibited from communicating such information to, or using such information for the benefit of, its Clients, and 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 law.

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

PERSONAL SECURITIES TRADING

Avalon or individuals associated with the Firm are restricted from the purchase and sale for their own Accounts of any covered security on the same business day as a transaction in any such security is effected for a Client Account unless all the transactions contemplated for Avalon clients in that security have been completed before such transactions. Access persons also may not engage in a personal transaction in a security for which any order for a Client is pending until such order is executed or withdrawn. Avalon's trading policies allow access persons to trade simultaneously with trades being placed for Clients when their funds are being managed by Avalon in a similar manner to Avalon's Clients. All access persons are required to notify the Chief Compliance Officer ("CCO") or 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 may consist of monthly brokerage statements for all Accounts in which they have a beneficial interest. Alternately, access persons may direct their brokers to send copies of all brokerage confirmations relating to all personal securities transactions in which they have a beneficial ownership interest for reporting purposes. Employees also must report all securities holdings to the CCO or designee annually if statements are not provided. These are reviewed by the CCO to ensure compliance with the Firm's policies.

INVESTMENTS IN PRIVATE FUNDS

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

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

ITEM 12 - BROKERAGE PRACTICES

SELECTION OF CUSTODIANS

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

SELECTION OF BROKERS

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

Avalon's objective in selecting brokers and dealers and in effecting portfolio transactions is to seek to obtain the best combination of price and execution with respect to its Accounts' portfolio transactions. The best net results, giving effect to brokerage commissions (which may not be the lowest available, but which ordinarily will not be higher than the 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 may have different execution capabilities for different types of securities and transactions. The factors include:

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

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

When buying or selling securities in dealer markets, Avalon may, 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 may execute over-the-counter trades on an agency basis rather than directly through a market maker. In these situations, the broker used by Avalon then acquires or disposes of the security through a market maker. The transaction may 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 may benefit Clients by providing anonymity in connection with a transaction or because the broker may have greater expertise or capability in connection with market access and transaction execution. Avalon has found that it may not receive the same level of service through a market maker as through a broker-dealer that trades on an agency basis.

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

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

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

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

RESEARCH AND OTHER SOFT-DOLLAR BENEFITS

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 may 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 may be used for certain research and brokerage-related products and services that assist Avalon in meeting its Clients' investment objectives or in managing the Clients' accounts. The receipt of these services in exchange for soft dollars benefits Avalon. Specifically, at no cost to the Firm, Avalon may:

- 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 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 may allocate brokerage commissions for brokerage and research services that are also available for cash, when appropriate and permitted by law. While the receipt of research in exchange for soft dollars is not expected to reduce Avalon's normal research activities, Avalon's expenses could increase materially if it attempted to generate such additional information and services through its own staff. Avalon may also pay cash for certain services.

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

- (i) with respect to research items, consist of advice, analyses or reports containing substantive content with respect to appropriate subject matter(s) or (ii) with respect to brokerage items, are sufficiently related to the trading, clearance or settlement of securities transactions and are provided and/or used during the time period beginning when Avalon communicates with the relevant broker-dealer for the purpose of transmitting an order for execution and concluding when the funds or securities are delivered to the advised account or the agent of the account holder

- provide lawful and appropriate assistance to Avalon in carrying out its relevant responsibilities to Client Accounts
- are acquired for a reasonable level of commissions in relation to the value of the product or service

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

Avalon will select broker-dealers based on its assessment of each broker-dealer's ability to provide quality executions and its belief that the research, information and other services provided by such broker-dealer may 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 may be paid commissions for effecting account transactions for Client Accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if Avalon determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or Avalon's overall duty to its discretionary Accounts.

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

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

Trades executed in a Client Picks Account, Avalon equity accounts or odd lot trades executed through Advent's Moxy® trade order management system may generate soft dollars with

Bloomberg Tradebook, LLC, Instinet, LLC "INSTINET®" or other providers. Client Picks Accounts may be generating soft dollars which are then used by other Client Accounts, creating a potential conflict of interest between Clients.

BROKERAGE FOR CLIENT REFERRALS

Avalon does not enter into agreements with or make commitments to, any broker-dealer that would bind Avalon to compensate that broker-dealer, directly or indirectly, for client referrals through the placement of brokerage transactions. Excluding ERISA Accounts, where one or more broker-dealers are believed capable of providing an equivalent quality of execution for a particular portfolio transaction, Avalon may select a broker-dealer in recognition of the broker-dealer's past referral of the Client for whom the transaction is being executed, or of other Clients, or in anticipation of possible future referrals from the broker-dealer. Avalon may have an incentive to select a broker-dealer that has referred, or may in the future refer, a client to Avalon. In doing so, unless otherwise specifically disclosed to the Client, Avalon will not cause an account to pay higher commissions, concessions or mark-ups/downs than would otherwise be obtainable regarding such a transaction from broker-dealers that do not provide such referrals but which otherwise provide similar execution quality services (including, as applicable, soft dollar services) for Avalon rather than on our Client's interest in receiving most favorable execution. Clients may limit Avalon's discretion by directing Avalon to trade through a particular broker-dealer, including one which may have referred the Client to Avalon. Additionally, Avalon may exercise its discretion to execute transactions through broker-dealers that also refer Clients when the use of such a broker-dealer is consistent with Avalon's duty to seek best execution and without consideration of such referrals as a factor in the brokerage decision.

CLIENT DIRECTED BROKERAGE

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

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

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

Transactions for a Client who directs brokerage generally will not be combined or "batched" for execution purposes with orders for the same securities for other Accounts managed by Avalon. In these instances, trades for a Client who has directed Avalon to use a specific broker or dealer to execute its trades generally will have its trades placed at the end of batched trading activity for a

security. Accordingly, directed transactions may 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 may result in higher commissions, greater spreads, or less favorable net prices than might be the case if Avalon could negotiate commission rates or spreads freely, or select brokers or dealers based on best execution.

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

COMMISSION RATES OR EQUIVALENTS

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

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

Avalon uses several different broker-dealers and may pay higher commission rates (or equivalents) to those whose execution capabilities, brokerage or research services, or other legitimate and appropriate services or efforts on Avalon's behalf are particularly helpful in seeking good investment results for Clients. Avalon recognizes that some brokerage firms are better than others at executing certain types of orders. Thus, it is in the best interest of Avalon's Clients to use a broker-dealer whose commission rates are not the lowest, but whose executions may result in more favorable 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.

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

ORDER AGGREGATION

Because the size and mandate of Client Accounts often differ, the securities held in Client Accounts may not be identical. In appropriate circumstances, any Account managed by Avalon may purchase or sell a security prior to (or after) other portfolios managed by Avalon. This could occur, for example, 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 portfolios contemporaneously. As part of the duty to seek best price and execution and consistent with relevant investment advisory agreements, Avalon may, but is not required to, "bunch" or batch together such trades and allocate the trades, in a fair and equitable manner over time, across participating Accounts. Avalon may include proprietary and personnel Accounts in such aggregate trades, subject to its duty of seeking best execution and to its Code of Ethics. Prices received by Avalon personnel participating in a batch trade will be no better than the average price assigned to participating Client Accounts. Executing transactions on a batched basis may facilitate best execution by, for example, allowing Avalon to negotiate more favorable commission rates or prices, to obtain more timely or equitable executions or to reduce overall transaction costs and charges.

Avalon seeks to aggregate trade orders in a manner 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, which usually involves only non-directed Accounts and seeks only liquid, actively traded securities, cannot be fully executed in a single day unless the Client has expressly directed otherwise. The partial fill is 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 may be adjusted based on market convention associated with the security. Similar market conventions may be applied to fixed income trades.

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

Avalon may also consider the following when allocating trades:

- cash flow changes (including available cash, redemptions, exchanges, capital additions, and capital withdrawals) which may provide a basis to deviate from a pre-established allocation 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 may be given priority over other Accounts in allocating such securities

- the proportion that the size of the Client's order bears to the total amount desired by all Clients
- the size of each Account's original order
- the desire to achieve "round lots"
- the relative size of the participating Accounts
- each participating Account's current holdings of the security and other securities
- for bond trades, street convention and good delivery may dictate the minimum size and par amounts

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

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

CROSS TRADES

Avalon may cause an Account to purchase or sell securities from or to another Account in a "cross trade." This occurs rarely. When engaging in cross trades, Avalon follows policies and procedures designed to ensure that participating Accounts are treated fairly and that an appropriate price is assigned to the crossed security. In certain circumstances, cross trades may reduce execution-related costs for participating Accounts. Under applicable law, ERISA accounts 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 may 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 trading desk seeks to execute transactions as instructed by the portfolio manager and in accordance with our duty of care. However, occasionally, errors do occur. When Avalon is responsible for a trade error, Avalon, rather than the Client, bears the costs and risks of erroneous trades. When a trade error is discovered by a trader or other relevant person, the error is documented, and Avalon transfers the erroneous position to that broker or custodian's "error account" when possible at the price paid or received by the Client and seeks to unwind the position as quickly as is practicable. The trade error policy of the custodian generally will dictate the trade error 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 portfolios 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 of time when Avalon determines that changes to a client's portfolio are neither necessary nor prudent. Avalon's investment and advisory fees remain payable during periods of account inactivity.

MANNER OF ACCOUNT REVIEW

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

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

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

Investors in Private Funds will receive such reports as are provided for in 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 may include valuations of the Private Fund's assets, transaction summaries and the value of an Investor's interest in the Private Fund as well as unaudited financial information including the performance of the Private Fund against an appropriate benchmark.

Investors in Avalon Private Funds will receive reports as 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 may rely on information provided by third parties in preparing reports and a third party will assist in preparing 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 the "Item 5 - Fees and Compensation," reports may include or rely upon fair value determinations made by Avalon or a third party. While such valuations are made in good faith, their actual or empirical accuracy cannot be guaranteed.

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

ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION

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

As discussed above, Avalon's use of a prime broker or Custodian may 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 may operate under a standing letter of authorization or may instruct custodians on a client's instruction to move assets to third parties. In these cases, Avalon is deemed to have "custody" of Client accounts within the meaning of the Custody Rule. As required by the Investment Adviser Custody Rule 206(4)-2(a)(4), Avalon has contracted with an independent auditor to have an annual surprise exam of Client assets to independently verify the Client funds and securities.

If Avalon is deemed to have custody of a Client Account, the Account 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 the "Item 13 - Review of Accounts," Avalon may provide each Client with reports or account statements providing information about the Client's Account(s). **Each Client should compare these carefully to the account statements received from the Account Custodian. If the Client discovers any discrepancy between the account 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 an Avalon Private Fund, Avalon is also deemed to have custody over the Avalon Private Funds within the meaning of the Custody Rule. To comply with this Rule, the general partner provides each Investor in the Avalon Private Funds audited financial statements within 120 days following the Avalon Private Funds' fiscal year end (and within 180 days following the fiscal year end for any Avalon Private fund of funds.) The audit is conducted by a PCAOB registered and inspected firm. **The Client should review these audited financial statements carefully. If the Client has invested in a Private Fund or an Avalon Private Fund and has not received audited financial statements timely, the Client should contact Avalon immediately.**

ITEM 16 - INVESTMENT DISCRETION

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

- the total amount of securities to buy or sell
- the broker or dealer through whom securities are bought or sold
- the commission rates at which securities transactions for Client Accounts are effected

- the prices at which securities are to be bought or sold, which may 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 Funding Accounts, Client Picks Accounts and Restricted or Control Stock Accounts, Avalon typically does not accept Accounts with limited discretion or where investments are Client-directed but may accept Client direction as to the broker or dealer through whom securities are bought or sold. Avalon generally requires that such direction be in writing, either as part of the Client contract or otherwise. Avalon reserves the right, in its sole discretion, to change the brokerage arrangements described herein without further notice to Clients or Investors. Avalon will obtain 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 Account Custodian to direct proxy solicitation materials to the Client.

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

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

ITEM 18 - FINANCIAL INFORMATION

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