



Carlson Capital, L.P.  
Form ADV Part 2A – Disclosure Brochure  
March 31, 2011

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*This brochure provides information about the qualifications and business practices of Carlson Capital, L.P. If you have any questions about the contents of this brochure, please contact us at 214-932-9600 or [compliance@carlsoncapital.com](mailto:compliance@carlsoncapital.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 Carlson Capital, L.P. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Carlson Capital, L.P. (“Carlson”) is the successor to a Delaware limited partnership formed in 1993, and is an SEC registered investment adviser. Registration with the SEC as an investment adviser does not imply that Carlson or any principals or employees of Carlson possess a particular level of skill or training in the investment advisory or any other business.*



## **Item 2: Material Changes**

Carlson is amending this brochure as part of its annual update. This brochure has been revised to meet the new amendments and requirements for the Form ADV adopted by the SEC effective October 12, 2010. As such, this brochure is substantially different in format from prior versions of Part 2 of our Form ADV and includes disclosures that were not required by the former Part 2.

The last annual update to the ADV Part 2 was March of 2010. Material changes that have occurred from the last update are as follows:

### **Item 9 – Disciplinary Information**

This section describes the voluntary settlement in September 2010 by a predecessor adviser and affiliate of Carlson relating to Rule 105 of Regulation M under the Securities Exchange Act of 1934.

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

On February 1, 2011, Parallel Resource Partners, LLC, which is owned in part by related persons of Carlson, launched a private equity investment fund to invest in the energy sector.



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#### **Item 4: Advisory Business**

Carlson and predecessor advisory affiliates have managed funds under the name Carlson Capital, L.P. since 1993, and have been registered with the Securities and Exchange Commission since 2001 and with the Commodity Futures Trading Commission since 1998. Clint D. Carlson and his immediate family members are the principal owners of Carlson, and certain employees also have an ownership position. Carlson and its affiliates have more than 140 employees, including more than 70 investment professionals. Carlson's total assets under management were approximately \$5.6 billion as of December 31, 2010. All assets are managed on a discretionary basis.

Carlson's principal offices are located in Dallas, TX, with other offices located in New York, NY, Greenwich, CT and Houston, TX. Carlson Capital (UK) Limited ("Carlson UK"), an affiliate of Carlson, maintains an office in London. Carlson UK has been registered as an investment adviser with the United Kingdom Financial Services Authority ("FSA") since 2001.

Carlson serves as the investment adviser to all of the Black Diamond Funds® (the "Funds") pursuant to the investment guidelines as set forth in the applicable offering memoranda. The Funds are organized in master-feeder structures in which the master fund of each Fund group is a Cayman Islands exempted company, and the feeder funds include an onshore fund organized as a Delaware limited partnership and an offshore fund organized as a Cayman Islands exempted company. Most of the Fund groups also include an intermediate fund between the offshore feeder fund and the master fund. Carlson Capital GP, L.P. ("CCGP"), an affiliate of Carlson, is the general partner of the onshore Funds. CCGP has delegated to Carlson the investment advisory authority it has as general partner of the onshore Funds.

Carlson also serves as the investment adviser to three separately managed accounts (the "Managed Accounts") pursuant to specific investment guidelines and restrictions as set forth in the investment advisory agreement with the relevant Managed Account client.

Carlson employs multiple strategies across its Funds, including, Equity Relative Value, Credit Relative Value, Credit Directional, Event Driven, Volatility, Equity Long/Short, and Strategic and Other. Carlson may use one or more of these strategies to manage each Fund and Managed Account in accordance with the investment guidelines of each Fund or Managed Account. Carlson's core strategies combine quantitative analysis of historical and theoretical relationships between securities and related instruments with a rigorous fundamental analysis of the macroeconomic environment and industry factors and company fundamentals. Carlson continually monitors global financial markets in an effort to uncover structural inefficiencies and investor biases toward certain types of risk. Once an opportunity has been identified, Carlson seeks to identify the reason that the inefficiency exists and the potential catalyst that will correct it. An appropriate hedge is then typically created in an effort to minimize risk.



## **Item 5: Fees and Compensation**

### **Management Fees**

As compensation for its services, each investor in the Funds generally pays Carlson management fees at an annual rate of 1.0% to 2.0% of the value of each investor's investment. The rate charged depends on the series of interests or shares in which the investor is invested, and some historically offered series are no longer available for new investment. Carlson may waive management fees under certain circumstances, however, such fees have only been waived in the case of investments by employees and similar persons. Management fees for investments in the Funds are not negotiable.

In the case of the onshore Funds, the management fee is ordinarily paid to Carlson quarterly in advance, and is calculated as a percentage of each investor's capital account as of the first day of each quarter. In the case of the offshore Funds, the management fee is ordinarily paid to Carlson monthly in arrears, and is calculated based on the net asset value of the shares held by each investor as of the end of each month. Management fees are deducted from each Fund investor's account on a monthly basis.

The amount and timing of management fees for the Managed Accounts are established in the investment advisory agreement with the client and may vary among the Managed Accounts.

### **Performance Allocations and Fees**

Carlson or an affiliate also generally receives a special allocation of profits, or "performance allocation," each year equal to 20% to 25% of the net appreciation in the value of the capital account of each investor in each onshore Fund, or of the net asset value of each investor's shares in each offshore Fund, subject to a high water mark as described below. Carlson may waive performance allocations under certain circumstances, however, such fees have only been waived in the case of investments by employees and similar persons. Performance allocation amounts are calculated and accrued to investors each month based on the profit and loss of each Fund. Although the performance allocation is accrued to each investor on a monthly basis, it is not credited to Carlson until the occurrence of a crystallization event, either when the investor withdraws, or in certain cases transfers an investment from a Fund, or at the end of each year. Performance allocations are subject to a high water mark and are reduced, depending on the Fund, either in full until net profits exceed any net losses that have been carried forward from prior years, or by one-half of the normal rate until net profits exceed 200% of any net losses that have been carried forward from prior years, in each case as described in greater detail in the governing documents for each Fund. Performance allocations for investments in the Funds are not negotiable.

Performance fees for Managed Accounts are established in the investment advisory agreement with the client and may vary among the Managed Accounts.



Substantial early termination fees may apply to investors who withdraw all or part of their investment from any Fund prior to the expiration of any applicable lock-up period.

### **Other Expenses**

Each Fund or Managed Account bears all expenses related to its investments and operations, including the following: brokerage commissions, clearing fees and custody charges, interest and commitment fees on loans and debit balances, borrowing charges on securities sold short, expenses related to investment research and data services, legal fees and costs arising in connection with any investment, litigation or regulatory investigation and general legal advice relating to the Fund or such Managed Account, withholding or transfer taxes, and costs of outside appraisers, accountants, attorneys or other experts or consultants as described in further detail in the governing documents of each Fund or in the investment advisory agreement of a Managed Account. Each Fund also bears fees charged by its administrator and reimbursement for reasonable out-of-pocket expenses incurred by the administrator in the performance of its duties, professional fees for preparation of offering documents or other contracts, expenses related to the preparation of tax returns and audits by tax preparers and auditors, and the fees and expenses of its legal and tax advisers.

For certain Funds, Carlson may cause a portion of the assets (generally not to exceed 10% of the net assets of any such Fund) to be managed directly by, or invested in investment funds managed or sponsored by, one or more unrelated sub-advisers, in which event the relevant Fund will pay fees to any such sub-advisers and will bear its share of the expenses of any such funds in which it invests in addition to the fees paid to Carlson and the other expenses of the Funds described above.

### **Item 6: Performance Allocations and Side-By-Side Management**

Carlson or an affiliate receives performance fees or allocations from the Funds and Managed Accounts as described in Item 5 above. Performance-based compensation arrangements may create an incentive for Carlson to recommend investments that may be riskier or more speculative than would be recommended under a different compensation arrangement. Performance fees or allocations are ordinarily calculated on a basis that includes unrealized gains as well as realized gains.

Carlson may charge varying advisory fees or allocations to investors based upon the series of interests or shares in which the investor is invested. In order to alleviate any potential conflicts of interest for Carlson and its affiliates that may arise out of the varying fee arrangements and allocations, the allocation of investment opportunities among each Fund and Managed Account is made in accordance with Carlson's investment allocation policy, which takes into account all relevant criteria, including the specific objectives of each Fund or Managed Account, the size and capital available for investment by each Fund or Managed Account, diversification needs, the size of the investment opportunity, current and anticipated market conditions, and specific investment restrictions or guidelines applicable to each Fund or Managed Account.



## **Item 7: Types of Clients**

Carlson provides investment advisory services to pooled investment vehicles, including the Funds and the Managed Accounts. Investors in the Funds and the Managed Accounts may include corporations, endowments, foundations, trusts, estates, individuals and pension plans. The Funds and Managed Accounts are offered exclusively to “accredited investors” as defined in Regulation D under the Securities Act of 1933, and “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940. Generally, investors must invest a minimum dollar amount of \$1,000,000 to \$5,000,000 in a Fund, although such minimum may be waived for certain investors and under certain circumstances.

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

### **Methods of Analysis**

Carlson’s investment strategies are driven by fundamental proprietary research, traditional security analysis, quantitative analysis, broker and research provider research and analyses as well as the industry knowledge and expertise of our portfolio management teams.

### **Investment Strategies**

The principal investment strategies used by Carlson in managing the Funds and Managed Accounts are summarized below. One or more of these strategies may be allocated to the respective Funds and Managed Accounts in accordance with the relevant Fund’s or Managed Account’s applicable investment guidelines.

#### ***Equity Relative Value Strategies***

Equity Relative Value seeks to identify securities that are mispriced relative to related securities, groups of securities, or the overall market. Positions are ordinarily established in a hedged construct in an effort to isolate the discrepancy in value and minimize market risk. Investments may represent a short-term or long-term fundamental view on the relative performance of a security. Equity Relative Value seeks to exploit the long market bias of most investors. Investors typically think in terms of buying securities that will appreciate, not in terms of capturing the difference in the performance of two or more securities.

#### ***Credit Relative Value Strategies***

Credit Relative Value strategies seek to capture relative returns amongst dislocated credits through the purchase and sale of fixed income instruments and related derivatives. Types of trades in the strategy include capital structure arbitrage (long and short mispriced securities within the capital structure of a single company), basis trades (long cash, short synthetic in the same credit) and diversified (long and short mispriced securities across different but



similar companies). Credit Relative Value utilizes fundamental research in an effort to identify and adapt to evolving opportunities.

### ***Credit Directional Strategies***

Credit Directional strategies seek to generate returns where fundamental asset values exceed the market value of liabilities of the company. These types of trades include loans, distressed securities, more traditional long-only, “deep value” trades, and asset backed securities.

### ***Event Driven Strategies***

Event Driven strategies involve long and short positions in securities and related derivatives of companies involved in a major corporate event. Mergers and acquisitions are the primary focus of this strategy, but other corporate events may include restructurings, bankruptcies, spin-offs or significant litigation. The strategy is research-intensive and requires continual review of announced and anticipated events. The goal is to uncover securities with a favorable risk-reward ratio based on the probability that the desired event will occur. An appropriate hedge is then typically developed in an effort to minimize exposure to market risk and ensure that, if events unfold as anticipated, the investment will generate favorable returns.

### ***Volatility Strategies***

Volatility strategies seek to identify convertible securities, warrants, options and other types of derivative instruments that are mispriced relative to the underlying equity security or another derivative, and then develop hedged positions involving the related securities and derivatives in an effort to isolate and profit from the mispriced element. Hedging is also used in an effort to minimize the exposure of the portfolio to interest rate and market risks. Opportunities may be created when investors purchase or sell derivative instruments based on their outlook for the underlying equity security rather than the value of the derivative instrument itself. Opportunities may also arise when complex securities are misunderstood or ignored by the market.

### ***Equity Long/Short Strategies***

Equity Long/Short strategies seek to profit from current, short-term and medium-term situations where the anticipated price movement of an individual equity security is not highly correlated to, or as easily hedged by, other securities within the same sector. These investment strategies, which typically emerge when investor expectations fail to adjust efficiently to aspects of fundamental change and often complex events affecting a company, may include catalysts, fundamental developments, and/or defined timeframes for value realization. The overall portfolio carefully balances investments among individual strategies



in an effort to minimize exposures to the market, various “macro” themes, or significant sector rotations.

### ***Systematic Trading Strategies***

Carlson also trades equity securities using certain systematic trading models. These trading models, which are expected to evolve over time as a result of further research and trading experience, employ computerized mathematical models to identify long and short positions in securities, and may include long, medium or short term trading systems.

### ***Strategic and Other***

Carlson may make strategic investments on behalf of certain Funds and Managed Accounts in smaller public and private companies in industries where Carlson has research expertise and industry knowledge. Recent examples have included investments in public and private acquirers of failing banks, investments in small capitalization, privately held companies in the North American oil and gas sector, and an equity investment in a property and casualty insurance underwriter.

Carlson may also engage in other trading strategies, including establishing portfolio overlay hedges and opportunistic, short-term trading in securities that Carlson believes are under-priced or over-priced, either relative to their peers or on an absolute basis.

## **Risk of Loss and General Investment Risks**

Investing in the Funds or Managed Accounts involves risk of loss and is suitable only for investors prepared to bear such risk. The risk factors below are not intended to be exhaustive. Prospective investors in the Funds or Managed Accounts should carefully review the risks described in the offering memorandum and related documents, as applicable, for the relevant Fund or Managed Account, and should evaluate the merits and risks of an investment in the context of their overall financial circumstances. Although certain of the strategies employed by Carlson are intended to be market neutral, the Funds and Managed Accounts may nonetheless be affected by the overall condition of financial markets.

### ***Risk Factors:***

#### **Hedging**

Certain investment strategies used by Carlson employ hedging techniques in an effort to reduce general market risks. Carlson may utilize financial instruments such as forward contracts, options, futures and swaps for hedging or investment purposes or as part of its trading strategies. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same



developments, in an effort to moderate the decline in the value of the portfolio positions. The success of hedging and arbitrage strategies will depend upon the ability of Carlson to correctly predict the degree of correlation between the price movements of hedging instruments and price movements in the underlying portfolio positions being hedged. It may not be possible to establish an accurate correlation between hedging instruments and the investment being hedged.

### **Leverage**

The Funds and Managed Accounts are leveraged in accordance with their respective investment guidelines. Borrowing for investment purposes, or leveraging, poses certain risks and may magnify volatility and the gains or losses from investment activities. Borrowing also causes the Funds and Managed Accounts to incur interest and other expenses. If securities pledged to brokers or other financial institutions to secure margin accounts of the Funds or Managed Accounts decline in value, the Funds or Managed Accounts could be subject to a “margin call,” pursuant to which the Fund must either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value.

### **Illiquid Assets**

Certain securities and other assets acquired by the Funds may not be readily marketable. The Funds may invest in “restricted” or non-publicly traded securities, securities traded on non-U.S. exchanges, securities that are acquired directly from companies in private placements that are not registered under U.S. securities laws, or securities traded off established exchanges on an “over the counter” basis. The Funds may not be readily able to dispose of such non-publicly traded or less-liquid securities, and in some cases, may be prohibited by contract or regulation from disposing of such securities for a specified period of time.

### **Derivatives**

Some of Carlson’s strategies may invest and trade in swaps and other “synthetic” or derivative instruments both for hedging purposes and as an alternative to direct investments in the underlying securities. Swaps and other derivatives are subject to the risk of non-performance by the swap counterparty as well as liquidity, credit, legal, operational, reputational and other risks beyond those associated with the direct purchase or sale of the underlying securities to which their values are related. Swaps and other forms of derivative instruments are not guaranteed by an exchange or clearing house or regulated by any U.S. or foreign governmental authority.

### **Debt Securities**

Some of Carlson’s strategies may invest in bonds and other fixed income securities that are subject to credit, liquidity and interest rate risks. Debt securities may be unrated by a recognized credit-rating agency or rated below investment grade and, thereby, subject to



greater risk of loss of principal and interest than higher-rated debt securities. Distressed debt securities are subject to greater market and credit risk.

### **Developing Markets**

Certain of Carlson's strategies may invest in developing market securities and foreign exchange instruments that may pose additional risks including currency exchange rate fluctuations, political and economic instability, foreign taxes and different regulatory, auditing and reporting standards.

## **Item 9: Disciplinary Information**

In September 2010, Carlson Capital Holdings, L.P. (the predecessor investment adviser and an affiliate of Carlson) voluntarily agreed to settle an SEC inquiry relating to Rule 105 of Regulation M under the Securities Exchange Act of 1934 without admitting or denying the SEC's allegations. Rule 105 generally prohibits purchasing an equity security in a registered secondary offering if the purchaser sold short the same security during a restricted period (generally defined as five business days before the pricing of the offering). Rule 105's prohibition applies irrespective of any intent to violate the rule. The settlement involved participation by the Funds and other accounts managed by Carlson Capital Holdings, L.P. in four secondary offerings between May and November 2008. Additional details regarding the settlement can be found in Carlson's Form ADV Part I, which can be accessed through the Securities and Exchange Commission website at <http://www.sec.gov>.

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

Carlson is registered as a commodity pool operator and commodity trading advisor and CCGP is registered as a commodity pool operator with the Commodity Futures Trading Commission. Both Carlson and CCGP are members of the National Futures Association, but have claimed certain exemptions with respect to activities on behalf of certain of the Funds.

Carlson relies in part upon investment advice received from Carlson UK, a United Kingdom private limited company. As described in Item 4 above, Carlson UK is an affiliate of Carlson and an FSA registered investment adviser.

CCGP is the general partner of the onshore Funds. CCGP has delegated to Carlson the investment advisory authority it has as general partner of the onshore Funds.

The Funds may under certain circumstances invest a portion of their assets in one or more of the other Funds to the extent that Carlson considers the investment appropriate and consistent with the investment objectives of the investing Fund. Any management or performance fees or allocations charged by Carlson or an affiliate on assets invested in a Fund by another Fund will be waived.

One of the Funds is managed in part by an unrelated sub-adviser pursuant to investment strategies and guidelines Carlson deems appropriate and consistent with the Funds' investment objectives.



Management and performance-based fees or allocations charged by any such Fund may be shared between the sub-adviser and Carlson.

On February 1, 2011, Parallel Resource Partners, LLC (“Parallel”), which is owned in part by related persons of Carlson, launched an energy private equity fund formed primarily to make control investments in distress driven opportunities in the North American upstream oil and gas sector. The name of the private equity fund is Energy Recapitalization and Restructuring Fund, L.P. (together with parallel investment funds, the “Energy Fund”), and Parallel is its general partner. The ownership by related persons of Carlson in Parallel is through an entity with the name of Carlson Energy Partners I, LLC (“CEP I”). CEP I currently employs four investment professionals who will devote a portion of their business time to managing investments on behalf of the Energy Fund. All four of such investment professionals are also employed by Carlson and will devote a portion of their business time to managing investments on behalf of the Fund and the Managed Accounts. Two of the Funds have made capital commitments to the Energy Fund in a class of interests that is not subject to a management fee or performance allocation.

Employees of Carlson and its affiliates may serve as officers, advisors, directors or in comparable management functions for portfolio companies in which the Funds or Managed Accounts invest, or provide other services to portfolio companies, and may receive compensation in connection therewith. Employees of Carlson and its affiliates may also from time to time serve on the board of directors or a creditors committee of a portfolio company, or be given access for other reasons to confidential information relating to companies in which the Funds or Managed Accounts invest. As a result, the Funds or Managed Accounts of Carlson may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or equity securities of such a portfolio company when doing so would otherwise be in their best interests.

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

### **Code of Ethics**

Carlson has adopted a Code of Ethics and Compliance Manual that contains policies and procedures (the “Code”) designed to, among other things, alleviate possible conflicts of interest, prevent the misuse of material non-public information, ensure the propriety of its employees’ personal trading activity, and instill a culture of compliance with the law and the highest standards of business conduct.

Each employee is given a copy of the Code upon commencement of employment, provided with initial and on-going training on the policies and procedures contained in the Code, and required upon commencement of employment, and at least annually thereafter, to sign a written acknowledgement of receipt, understanding and agreement to abide by the Code. Employees are also provided with any updates or amendments to the Code on an on-going basis.



From time to time, Carlson or its affiliates may come into possession of material non-public information. This may occur, for example, where an affiliated person is a director or officer of a company and securities of the company are held in the Funds or Managed Accounts or an employee becomes otherwise aware of material non-public information. In the event that Carlson or its affiliates are in possession of material non-public information, Carlson will place the issuer or security on its Restricted List and will be unable to use such information for the benefit of any of the Funds or Managed Accounts. Carlson's possession of such information may, therefore, cause the Funds or Managed Accounts to be prohibited from trading the securities of the issuer until such time as the information is made public.

The Code of Ethics is available to all current or prospective investors upon request to the Compliance Department or Investor Relations Department, 2100 McKinney Avenue, Suite 1800, Dallas, TX 75201 or at [compliance@carlsoncapital.com](mailto:compliance@carlsoncapital.com).

In an effort to monitor and alleviate any potential or actual conflicts of interests, the Code requires employees to disclose to the Compliance Department all "family" and "close personal relationships" with employees of broker-dealers or officers or directors of publicly held companies. For this purpose, "family" includes all immediate family members and extended family members and "close personal relationships" includes close personal friends with whom the employee has significant non-business related contact. Employees are also encouraged to disclose any other relationships that may pose potential or actual conflicts of interest.

Carlson may invest on behalf of the Funds or Managed Accounts in issuers of securities for which affiliated persons of Carlson may be members of the governing boards or hold other positions and for which such persons may receive compensation directly from such issuers. Receipt of such compensation may create a conflict of interest between a board member's personal interests, the interests of the clients of Carlson and the interest of the issuer and its other shareholders. Carlson has established procedures intended to address the possible conflicts of interest that board membership may present, including requiring authorization from Carlson's Chief Compliance Officer prior to an employee serving as a board member.

Carlson, its affiliates and their employees may recommend or effect transactions on behalf of the Funds and Managed Accounts in securities that such employees may buy or sell for their personal investment accounts. Carlson has implemented a Personal Trading Policy, described below, as part of its Code which is aimed at ensuring that employee transactions do not create a potential or actual conflict of interest.

Carlson has adopted policies and procedures, including pre-approval of all transactions in most securities and derivatives (with the exception of certain "Exempt Securities," as described below) by employees for their personal accounts, including initial public offerings and private placements, in an effort to detect and prevent conflicts of interest and ensure that all personal transactions by employees are consistent with Carlson's fiduciary duty to the Funds and Managed Accounts and all



applicable laws. “Exempt Securities” include ETFs identified as “broad based” by NASDAQ, money market funds, open-end mutual funds (certain closed-end funds are subject to pre-clearance), bank and brokerage CDs, unit investment trusts, direct investment plans, direct obligations of the U.S. government (e.g., Treasuries), and spot currency transactions. Other than for the Exempt Securities and certain other exemptions granted by Carlson’s Compliance Department on a case by case basis, the Personal Trading Policy prohibits employee trading in securities for which there is a pending or completed order for any Fund or Managed Account on the day of the request, and trading within two days against orders placed on behalf of any Fund or Managed Account. The Personal Trading Policy includes a required 30-day holding period for any employee securities holdings other than Exempt Securities.

All employees must file initial and annual securities holdings reports. Employees must certify on at least a quarterly basis all personal transactions involving non-exempt securities. Transactions by employees are monitored in order to ascertain any pattern of conduct that may evidence actual or potential conflicts with the principles and objectives of the Code or other inappropriate behavior.

Employees must also obtain approval from Carlson’s Chief Compliance Officer prior to participation in outside business activities, including serving on boards of companies or creditors’ committees.

### **Participation in Client Transactions**

Carlson and its affiliates and their respective principals and employees own significant investments in many of the Funds. Carlson does not generally invest directly on its own behalf in investments outside of the Funds. To the extent that the investment by Carlson and its affiliates and their respective principals and employees in any of the Funds or Managed Accounts may cause such Fund or Managed Account to be considered a proprietary account, Carlson has adopted procedures to ensure that transactions between such proprietary account and any other Fund or Managed Account comply with the requirements of the Advisers Act including, where necessary, obtaining the consent of one or both parties to the transaction, including the directors of a Fund or authorized signatory on behalf of the Managed Account.

Carlson may engage in transactions between two or more Funds or Managed Accounts (a “cross transaction”), including accounts in which Carlson and its affiliates and their principals and employees are investors or in which such persons may have a financial interest due to a performance allocation being charged to such client and credited to Carlson or an affiliate by such Fund or Managed Account. For example, Carlson might cause two accounts to enter into a rebalancing transaction such that, after capital withdrawals or contributions have occurred, the portfolio compositions of similarly managed accounts remain substantially similar. When doing so, Carlson will seek to execute the transaction at the current market price of the relevant securities using current sales data or a mid-market price. Carlson will only cause the Funds or Managed Accounts to



enter into cross transactions with each other when such a transaction is consistent with the investment objectives and policies of each Fund or Managed Account involved in the transaction.

## **Item 12: Brokerage Practices**

Carlson has complete discretion in selecting brokerage relationships and negotiating commissions. Carlson's objective in selecting a broker-dealer is to seek the best overall terms available under the prevailing circumstances and to ensure that best execution standards are met. Carlson evaluates each of its brokerage relationships utilizing a variety of factors, including the ability of the broker to achieve prompt and reliable executions at favorable prices, the operational efficiency with which transactions are effected, the financial strength, integrity and stability of the broker, the quality, comprehensiveness and frequency of available research and related services considered to be of value, any special expertise or capabilities of the broker and the competitiveness of commission rates in comparison with other brokers satisfying Carlson's other selection criteria.

Carlson may cause a higher commission to be paid to a broker or dealer that furnishes research, brokerage and other related services than might be charged by another broker or dealer for effecting the same transaction, provided that Carlson determines in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage and research or investment management-related services and equipment provided by such broker or dealer. Research, brokerage and related services furnished by brokers or other third parties may include, exchange and market data, information and analyses concerning specific securities, companies or sectors, market, financial or economic studies and forecasts, statistics and pricing services, discussions with research personnel, legal research and analysis and databases, software and other news, technical and telecommunications services and equipment utilized in the investment management and execution process. Carlson does not receive any services from brokers that are outside the safe harbor for the use of brokerage commissions or "soft dollars" for "research and execution services" under Section 28(e) of the Securities Exchange Act of 1934.

Subject to seeking best execution, Carlson may direct and has directed brokerage transactions to brokers that have referred investors to Carlson and the Funds. Directing brokerage to broker-dealers in recognition of past or future referrals may create an incentive to effect more brokerage transactions with brokers who refer investors than might otherwise occur if referrals were not taken into consideration.

When Carlson uses brokerage commissions or "soft dollars" to pay for research or other products or services, it receives an economic benefit in the form of research, products or services that are paid through soft dollar arrangements. This may pose a conflict between the interests of the Funds and Managed Accounts and Carlson.

Research and brokerage products or services provided by brokers may be used in servicing any or all of the Funds and Managed Accounts, and such research and brokerage products or services may not necessarily be used by Carlson in connection with the Funds and Managed Accounts that paid



commissions to the broker providing such products or services. Carlson may not allocate soft dollar benefits to the Funds or Managed Accounts proportionately to the soft dollar credits that each Fund or Managed Account generates. The allocation of brokerage commissions paid to each broker in return for research is monitored on a monthly basis by Carlson's execution traders and is reviewed by Carlson's Best Execution/Soft Dollar Committee. Total commissions as well as "per share commissions" paid to each broker are also monitored by the Best Execution/Soft Dollar Committee.

Carlson and its affiliates may have other business arrangements with brokerage firms used to execute transactions for the Funds and Managed Accounts. Brokerage firms and their affiliates may be investors in the Funds, and may provide financing or other services to Carlson or other accounts managed by Carlson. Carlson's Code contains a Gifts and Entertainment Policy that requires employees to disclose all significant gifts and entertainment provided by brokerage firms and their employees and places restrictions on the value and types of gifts and entertainment employees may receive. Carlson strictly prohibits the consideration of factors such as the receipt of gifts and entertainment when selecting brokers and counterparties to execute transactions for the Funds and Managed Accounts.

Carlson has established allocation and aggregation procedures for the allocation of portfolio investment transactions among the Funds and Managed Accounts. The allocation and aggregation procedures are designed to ensure that each Fund and Managed Account is treated fairly and that transactions are allocated in a manner that is fair and equitable to each Fund and Managed Account, taking into account all relevant facts and circumstances. In general, if orders for an investment cannot be completely filled, the orders are allocated either *pro rata* among the Funds and Managed Accounts participating in an aggregated transaction, or on a basis other than *pro rata* if such other method of allocation is reasonable and does not result in an improper disadvantage or advantage to one participating Fund or Managed Account as compared to another Fund or Managed Account, taking into account all relevant criteria, as described in Item 6 above.

### **Item 13: Review of Accounts**

All investments allocated to the Funds and Managed Accounts are reviewed on a continuous basis by Carlson investment personnel. The principal portfolio managers who make investment decisions on behalf of each of the strategies used by each Fund and Managed Account supervise the management of the strategies and investments for which they are responsible on an on-going basis. Carlson's Management Committee and Investment Committee oversee specific aspects of the investment process including capital allocation, target leverage and certain hedging decisions.

Carlson provides monthly reports to its investors that contain information about the Funds, including current performance results. Investors in the Funds also receive a monthly capital statement from each Fund's administrator that sets forth the investor's capital account balance or net asset value. Investors in the Funds receive audited financial statements on an annual basis.



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

Carlson may enter into agreements pursuant to which it compensates unaffiliated third parties for referrals of investors in Funds. In general, third party solicitors may receive a portion of the fees paid by such Funds to Carlson attributable to capital committed by such investors. Investors solicited by such third parties will not be subject to any type of an increased fee in connection with such solicitation. Carlson may also utilize brokers who have referred investors as described in Item 12 above, under “Brokerage Practices.”

#### **Item 15: Custody**

Except as described in this Item 15, Carlson does not maintain physical custody of any of the assets of any Fund or Managed Account, all of which are maintained by one or more qualified custodians. Certain privately offered, uncertificated securities may be recorded on the books of the issuer or its transfer agent in the name of the relevant Fund or client. These assets are not required to be maintained with a qualified custodian.

Carlson may be deemed under Rule 206(4)-2 of the Advisers Act to have custody of the assets of certain of the Funds as a result of the authority of CCGP as general partner of certain of the Funds. Carlson distributes audited financial statements to each investor in each Fund within 120 days of the Fund’s fiscal year end. As described in Item 13 above, the administrator of each Fund also sends a monthly capital account statement to each investor in such Fund. Investors in the Funds do not receive statements from the custodian.

#### **Item 16: Investment Discretion**

Carlson has complete discretionary authority to manage the Funds and Managed Accounts pursuant to the applicable investment guidelines, and endeavors to manage the Funds and Managed Accounts in a manner consistent with the stated investment objectives and restrictions of each Fund or Managed Account.

#### **Item 17: Voting Client Securities**

Carlson has adopted policies and procedures (the “Proxy Policy”) regarding the voting of proxies designed to ensure that it votes proxies on behalf of the Funds and Managed Accounts over which it exercises voting discretion in the best interests of its clients and investors.

When exercising its voting authority over securities, Carlson considers all relevant information, evaluates other issues that could have an impact on the value of the security, and votes with a view toward maximizing overall value. Carlson reviews each proposal submitted for a vote on a case-by-case basis to determine whether it is in the best interest of the Fund or Managed Account. As a result, depending on the Fund’s and Managed Accounts’ particular circumstances, Carlson may vote securities in one Fund or Managed Account differently than it votes those of another Fund or Managed Account, or may vote differently on various proposals, even though the securities or



proposals are similar or identical. In some instances, Carlson may determine that it is in the Fund's or Managed Account's best interest to "abstain" from voting or not to vote at all.

Prior to exercising its voting authority, Carlson reviews the relevant facts and determines whether or not a material conflict of interest may arise due to business, personal or family relationships of Carlson, its owners, employees or affiliates with persons having an interest in the outcome of the vote. If a material conflict exists, Carlson takes steps to ensure that its voting decision is based on the best interests of the Fund or Managed Account and is not a product of the conflict. Carlson may, at its discretion, seek guidance from Carlson's outside legal counsel or other advisors. Investors in the Funds may not direct voting in a particular proxy solicitation.

Carlson will deliver to each Fund or Managed Account investor, upon written request, a copy of the Proxy Policy or information on how it voted proxies for the applicable Fund or Managed Account.

#### **Item 18: Financial Information**

Carlson does not believe it has any financial condition that would impair its ability to meet contractual commitments to any Fund or Managed Account, and has not been the subject of a bankruptcy proceeding.