



Carlson Capital, L.P.
Form ADV Part 2A - Disclosure Brochure
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Additional information about Carlson is available on the SEC's website at www.adviserinfo.sec.gov. Carlson is registered with the SEC as an investment adviser. Being a "registered investment adviser" or describing Carlson as being "registered" does not imply a certain level of skill or training.

THIS BROCHURE SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY ANY SECURITY.

Item 2 MATERIAL CHANGES

The last update to Carlson's Form ADV Part 2 (this "Brochure") was in March 2017. A summary of material changes since the last annual update of this Brochure is as follows:

Item 4 - Carlson has amended Item 4:

- To disclose that Carlson CLO Advisers, LLC, a recently-formed and wholly-owned subsidiary of Carlson, is now the collateral manager of the CLOs (as defined in Item 4).

Item 8 - Carlson has amended Item 8:

- To update the description of Carlson's investment strategies.

Item 10 - Carlson has amended Item 10:

- To disclose that Carlson CLO Advisers, LLC, a recently-formed and wholly-owned subsidiary of Carlson, is now the collateral manager of the CLOs.
- To include a description of Carlson's co-investment policy.

Item 11 - Carlson has amended Item 11:

- To update the description of Carlson's participation in client transactions.

This Brochure has also been updated to reflect other changes in conformity with the offering materials of private funds managed by Carlson.

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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 SEC as an investment adviser since 2001 and with the Commodity Futures Trading Commission as a commodity pool operator and commodity trading advisor since 1998. Carlson Capital, L.P. and certain of its affiliates together conduct a single advisory business, and, except as otherwise noted, are collectively referred to in this brochure as “Carlson.” Clint D. Carlson and his immediate family members are the principal owners of Carlson, and certain employees also have ownership interests in Carlson and certain affiliated vehicles. Carlson and its affiliates have approximately 171 employees, including 82 investment professionals as of December 31, 2016. Carlson’s total regulatory assets under management were approximately \$19.8 billion as of December 31, 2016. All assets are managed on a discretionary basis.

Carlson’s principal office is located in Dallas, TX, with other offices located in New York, NY, Greenwich, CT, Palm Beach Gardens, FL and Houston, TX. Carlson Capital UK LLP (“Carlson UK”), an affiliate of Carlson, maintains an office in London, United Kingdom. Carlson UK and a predecessor advisory affiliate have been registered as an investment adviser with the United Kingdom Financial Conduct Authority (“FCA”), previously known as the Financial Services Authority, since 2001. Carlson UK acts as a sub-advisor to Carlson with respect to certain advisory clients of Carlson.

Carlson provides discretionary investment advisory services to privately-offered pooled investment vehicles, to collateralized loan obligation special purpose vehicles, and to managed accounts (collectively, “Clients”).

The Funds

Carlson currently manages each of the Black Diamond Funds® (collectively, the “Funds”), the names of which are set forth in Item 10 (Other Financial Industry Activities and Affiliations) below. The Funds are generally 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 a U.S.-domiciled 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 U.S.-domiciled feeder funds. CCGP has delegated to Carlson the investment advisory authority of the U.S.-domiciled feeder funds.

Black Diamond Relative Value Cayman, L.P. (“Relative Value Cayman”) is a Cayman Islands exempted limited partnership. Relative Value Cayman does not utilize a master-feeder structure and is instead managed *pari passu* with the Relative Value Master Fund (as defined below). CCGP is the general partner of Relative Value Cayman and has delegated to Carlson the investment advisory authority of this Fund.

As described more fully below, Carlson employs multiple strategies across the Funds, including equity relative value, equity long/short, cross asset relative value, credit long/short, event driven, strategic, macro and other strategies. A brief description of each of the foregoing strategies can be found in Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) below. 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.

The master funds advised by Carlson and their respective investment objectives and strategies are as follows:

Black Diamond Offshore Ltd., a Cayman Islands exempted company (the “Black Diamond Master Fund”), is a diversified, multi-strategy fund that seeks superior investment returns while preserving capital. The principal strategy of the Black Diamond Master Fund is to identify and exploit inefficiencies in global financial markets while minimizing exposure to market risk through hedging, diversification, limited use of leverage, and a focus on highly liquid assets. The Black Diamond Master Fund will not, however, seek to be market neutral, and expects from time to time to take directional market risk.

Double Black Diamond Offshore Ltd., a Cayman Islands exempted company (the “Double Black Diamond Master Fund”), is a diversified, multi-strategy fund that seeks to produce returns substantially in excess of those derived from risk-free investments, without a substantial increase in overall risk. The principal strategy of the Double Black Diamond Master Fund is to identify and exploit inefficiencies in the global financial markets while minimizing exposure to market risk through hedging and other investments strategies that are generally intended not to be market-sensitive.

Black Diamond Relative Value Offshore Ltd., a Cayman Islands exempted company (the “Relative Value Master Fund”), is a relative value arbitrage fund employing a market neutral investment philosophy in the global equity markets. The investment objective of the Relative Value Master Fund’s is to produce returns substantially in excess of those derived from risk-free investments, without a substantial increase in overall risk. Carlson seeks to accomplish this objective by investing in securities that are mispriced relative to similar or related securities, groups of securities or, to a lesser extent, the overall market. Positions are then hedged in an effort to isolate this discrepancy in value and minimize market risk.

Black Diamond Arbitrage Offshore Ltd., a Cayman Islands exempted limited company (the “Arbitrage Master Fund”), is a merger and event driven arbitrage fund generally employing a market neutral investment philosophy in the global equity markets. The investment objective of the Arbitrage Master Fund is to produce returns substantially in excess of those derived from risk-free investments, without a substantial increase in overall risk. The principal strategy of the Arbitrage Master Fund is to take advantage of investment opportunities arising from corporate mergers and other significant corporate events. In general, the Arbitrage Master Fund purchases securities in a company that is the target of a merger in order to earn the difference between its current and future expected value. The Arbitrage Master Fund hedges market risk by selling short securities it expects to receive in the merger, or by selling other similar securities. It also uses futures and options in an effort to minimize market exposure. The Arbitrage Master Fund also invests in distressed securities.

Black Diamond Thematic Offshore Ltd., a Cayman Islands exempted company (the “Thematic Master Fund”), seeks to maximize absolute returns while limiting exposure and correlation to the equity markets. The Thematic Master Fund takes a thematic long/short approach to investing in the equity markets. The themes employed by the Thematic Master Fund may include, among other things, broad macroeconomic trends, specific industry trends or opportunities created by dislocations in various markets or securities. From time to time the Thematic Master Fund will also make investments based on company specific factors or events.

Black Diamond Mortgage Opportunity Offshore II Ltd., a Cayman Islands exempted company (the “Mortgage Opportunity II Master Fund”), seeks interest income and capital appreciation by investing primarily in a wide range of both agency and non-agency mortgage backed securities (“MBS”) and related instruments and derivatives that Carlson believes offer attractive risk adjusted returns. The Mortgage Opportunity II Master Fund may also invest in options, repurchase agreements, futures, swaps and a variety of other derivatives and other forms of synthetic leverage.

Black Diamond Energy L/S Offshore Ltd., a Cayman Islands exempted company (the “Energy Master Fund”), seeks to maximize absolute returns while managing exposure and correlation to the equity markets within a pre-defined limit. The Energy Master Fund takes a long/short approach to investing across the energy sector. Investment theses may include, among other things, specific energy industry trends or opportunities created by dislocations in various markets or securities. The Energy Master Fund will also make investments based on company specific factors or events.

Carlson previously managed Black Diamond Marine 2014-I Limited (the “Marine Holdings Fund”) and certain affiliated entities. The Marine Holdings Fund and certain Carlson affiliates that had been formed as part of its investment structure were dissolved as of February 2016.

The CLOs

Carlson CLO Advisers, LLC (“CCA”), a wholly-owned subsidiary of Carlson, manages collateralized loan obligation special purpose vehicles (the “CLOs”), the names of which are set forth in Item 10 (Other Financial Industry Activities and Affiliations) below. Each CLO is a Cayman Islands exempted company that seeks to leverage Carlson’s existing credit team and credit research process. The CLOs employ a long-only strategy investing in the broadly syndicated loan market. The focus is on investing in syndicated loans of companies that generate solid, predictable, low volatility free cash flows and that have the potential for accelerated deleveraging. The CLO strategy seeks a positive risk adjusted return and focuses on capital preservation.

The Managed Accounts

Carlson currently provides discretionary investment advisory services to two 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.

There can be no assurance that the investment objectives of any Client will be achieved.

Carlson's management of each Client, and the terms of any investment in such Client, are governed exclusively by the terms of that Client's governing documents ("Governing Documents"), including, without limitation, its offering memorandum (if any), limited partnership agreement (if any), memorandum and articles of association (if any), and investment advisory or similar agreement (if any). All discussions in this Brochure of the Clients, their investments, the strategies Carlson pursues in managing the Clients' portfolio, the fees and expenses borne by the Clients, and all other terms of each, are qualified in their entirety by reference to the Governing Documents.

Please see Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) and Item 10 (Other Financial Industry Activities and Affiliations) below.

Item 5 FEES AND COMPENSATION

Management Fees

The Funds: Generally, Carlson is paid management fees ("Management Fee") at an annual rate of between 0.75% to 2.0% of the net asset value of each limited partner's capital account and each investor's series of shares, as applicable. If the limited partnership interests or shares of a feeder fund are issued in more than one series, each series may have a different Management Fee applicable to it.

Management Fees charged to the U.S.-domiciled feeder funds are generally calculated and payable in advance as of the first business day of each calendar quarter. In the event an investor is admitted to a U.S.-domiciled feeder fund subsequent to the first day of a quarter or withdraws from a U.S.-domiciled feeder fund prior to last day of a quarter, the Management Fee paid to Carlson with respect to such investor will be prorated to reflect the number of months in the calendar quarter during which such investor was a limited partner in the feeder fund. Management Fees charged to the offshore feeder funds are generally calculated and payable in arrears as of the end of each month before accrual of any Performance Allocation (as described below).

The Management Fee charged to a Fund generally is not negotiable. Carlson may, however, waive or reduce the Management Fees charged to certain investors, and has waived Management Fees for investors in the Funds that are affiliated with Carlson and its affiliates, including, without limitation, their respective partners, employees and similar persons. Carlson may pay all or part of the Management Fees to third parties for services rendered in connection with the placement of interests and/or shares in the feeder funds or for other services.

The CLOs: Carlson receives a senior management fee ranging from 0.10% to 0.125% from each CLO, calculated and paid quarterly in arrears. Carlson also accrues a subordinated management fee ranging from 0.05% to 0.30% from each CLO, calculated and paid quarterly in arrears. Senior management fees and subordinated management fees are generally not negotiable. Carlson may waive (in whole or in part) and has waived, or reimbursed to the extent received, senior management fees and subordinated management fees for Carlson's partners, employees, and affiliates as well as for Funds that have invested in the CLOs.

The Managed Accounts: The amount and terms of payment of any management fees payable by the owners of the Managed Accounts to Carlson vary and are established in the Governing Documents

of the Managed Accounts. Depending on the structure, size of investment and other factors, Managed Accounts may offer more favorable fee terms than an investment in other Clients.

Performance Allocations and Fees

The Funds: CCGP generally receives a special allocation of profits or a “Performance Allocation,” each year with respect to each of the Funds. The amount of the Performance Allocation varies between Funds and if the limited partnership interests or shares of a feeder fund are issued in more than one series, each series may have a different Performance Allocation applicable to it. Depending on the series, the amount of the Performance Allocation is equal to a percentage that ranges from 15% to 30% of each limited partner’s or shareholder’s share of the net profits (including realized and unrealized gains) of each feeder fund, if any (after taking into account expenses of the feeder fund, including any Management Fees). In certain instances, the Performance Allocations are subject to achievement of a “hurdle” rate. The Performance Allocations are generally calculated and applied on an annual basis and are accrued on a monthly basis based on the net profits (or losses) of each Fund. Although the Performance Allocation is accrued on a monthly basis, it is not credited to CCGP until the occurrence of a crystallization event, which is generally the end of each calendar year, the withdrawal or redemption of a limited partner or shareholder from a feeder fund, a transfer of an investment in a feeder fund that results in a change of a majority in interest of the beneficial ownership of the investment (unless the transferor and transferee have the same investment adviser exercising investment discretion over the transfer on behalf of both the transferor and transferee) and/or the conversion of an investment in a feeder fund to another series that results in a change in the manner in or rate at which the Performance Allocation is made or to another feeder fund in a different Fund group. The Performance Allocation is applied at the onshore feeder fund level or offshore intermediate fund level (or the master fund level if there is no intermediate fund) and received by CCGP. CCGP also receives a Performance Allocation from Relative Value Cayman. CCGP serves as the general partner to the onshore feeder funds, as a special shareholder of each offshore intermediate fund (or of the master fund if there is no offshore intermediate fund), and as general partner of Relative Value Cayman. In the case of onshore feeder funds and Relative Value Cayman, the Performance Allocation is calculated and applied separately for each memorandum account established by the fund for each capital contribution by a limited partner. In the case of offshore feeder funds, the Performance Allocation is calculated and applied separately for each sub-series of shares created by the fund for each subscription by a shareholder.

The Performance Allocation is calculated in accordance with each Fund’s Governing Documents and is subject to a high-water mark or loss carry-forward, which generally requires that prior un-recouped net losses be made up before the Performance Allocation is credited. As noted above, certain Performance Allocation calculations include a “hurdle” rate. In the case of a partial withdrawal, partial redemption, partial transfer of an investment in a feeder fund that results in a change of a majority in interest of the beneficial ownership of the transferred investment (unless the transferor and transferee have the same investment adviser exercising investment discretion over the transfer on behalf of both the transferor and transferee) or partial conversion of an investment in a feeder fund to another series with different Performance Allocation fee terms (as described above) or to another feeder fund in a different Fund group, the amount of net losses that must be recouped will be reduced in proportion to the amount withdrawn, redeemed, transferred or converted, as applicable.

The Performance Allocation generally is not negotiable. Carlson may, however, in its sole discretion, waive or reduce the Performance Allocation made with respect to any limited partner or shareholder

in the feeder funds, and has waived the Performance Allocation for partners, employees and similar persons of Carlson and its affiliates. Carlson may pay all or part of the Performance Allocation to third parties for services rendered in connection with the placement of interests and/or shares in the feeder funds or for other services.

The CLOs: Carlson is entitled to a 20% incentive management fee from each CLO that is calculated and paid quarterly in arrears. No performance fee is accrued until each CLO has achieved a “hurdle” rate with respect to the subordinated notes issued by the CLO (referred to as an “incentive management fee threshold”). The incentive management fee threshold varies from an internal rate of return of 10% to 12%. Incentive management fees generally are not negotiable; however, Carlson may waive (in whole or in part) and has waived, or reimbursed to the extent received, incentive management fees for partners, employees and affiliates of Carlson, including Funds that have invested in the CLOs.

The Managed Accounts: The amount and terms of payment of any performance fees or allocations payable to Carlson by the owners of the Managed Accounts vary and are established in the Governing Documents of the Managed Accounts. Depending on the structure, size of investment and other factors, Managed Accounts may offer more favorable fee terms than an investment in other Clients.

Withdrawal Fees

Substantial withdrawal fees may apply to limited partners and/or shareholders in the feeder funds who withdraw or redeem, as applicable, all or a portion of their limited partnership interests and/or shares from a feeder fund prior to the expiration of any applicable lock-up period. Managed Accounts may also be required to pay withdrawal, early termination or other similar fees under certain circumstances and as established in the Governing Documents of the Managed Accounts.

Expenses

Carlson and/or its affiliates pay all of their respective ordinary office overhead expenses, including, but not limited to, overhead expenses such as rent, supplies, stationery, office furniture and fixtures, employee insurance, payroll taxes and the compensation of its personnel. Each Client pays or reimburses Carlson and its affiliates for all other costs and expenses associated with such Client’s operations as set forth in the Governing Documents of each Client.

In general, expenses borne by a Client that is a Fund or CLO may include, without limitation:

- expenses related to investment transactions and positions for the Client’s account, including brokerage commissions and custody charges, interest and commitment fees on loans and debit balances and other borrowing costs, borrowing charges on securities sold short, bank service fees, costs of any outside appraisers, pricing services, accountants, attorneys or other experts or consultants engaged by the Client, Carlson or its affiliates, reasonable investment-related travel expenses, and expenses in connection with proposed transactions (including transactions that fail to close);
- legal fees and costs (including settlement costs) arising in connection with any litigation or regulatory investigation instituted against, or regulatory examination of, the Client, Carlson or

its affiliates in connection with the affairs of the Client, costs of research and data services, and insurance costs;

- costs of communication with investors;
- costs of preparing and filing regulatory filings of the Client, Carlson or any of its affiliates relating to their respective activities relating to the Client (including, as applicable, Form PF, Form CPO-PQR, Form CTA-PR, the EU Directive on Alternative Investment Fund Managers and any other filing or registration with, or license obtained from, any U.S. federal, state or local, non-U.S. or multi-national governmental, regulatory, self-regulatory or other authority necessary for, or incidental to, permitting Carlson or any of its affiliates to provide investment advisory or other services to the Client), and fees and expenses of legal counsel in connection with advice relating to the legal, regulatory and compliance affairs of the Client or Carlson or any of its affiliates in connection with the offering of interests or shares in the Client (including the preparation of side letter arrangements) and the operations of the Client;
- directors' registration fees (as applicable), legal, accounting, auditing and tax services and fees, including costs of the audit of the Client's annual financial statements and the preparation of their respective tax returns, fees and expenses of the Client's administrator and directors (as applicable), expenses of the tax matters partner and partnership representative of the Client (as applicable), and taxes or similar amounts imposed on the Client or any of its investors as a result of its or their earnings, investments or withdrawals (which amounts will be assessed, where applicable to particular investors, directly against such investors' investments in the Client),
- clearing and settlement charges, any other expenses related to the purchase, sale, transmittal or holding of investments, and other ordinary operating and out-of-pocket expenses of the Client; and
- where applicable, a proportionate share of the operating expenses of the Fund group for any Fund structured as a master-feeder.

The CLOs also pay for any fees necessary to register any collateral obligation, as well as all costs, fees and expenses incurred related to the rating of the CLO securities or obtaining ratings or credit estimates, communications with rating agencies, and the listing of the CLO securities on an exchange. Also, the CLOs must pay the trustee and collateral administrator fees and reimburse the trustee and the collateral administrator for all reasonable out-of-pocket expenses properly incurred by the CLOs' trustee and collateral administrator in the performance of their respective duties.

The types of expenses borne by a Fund or CLO are set forth in the Governing Documents of such Fund or CLO. Additional information on expenses of each Fund or CLO are also available to investors upon written request and, in the case of the Funds, in the Funds' annual audit.

If any of the above expenses are incurred jointly for more than one Client, such expenses will be allocated among the Clients in proportion to the size of the investment made by each in the activity or entity to which the expense relates, or in such other manner as Carlson considers fair and reasonable.

Carlson has elected to reimburse certain Funds for certain operating expenses (as described in the Governing Documents for the relevant Funds, but for the sake of clarity, excluding any management fees, performance fees/allocations, brokerage commissions, interest and other investment expenses, and extraordinary or non-recurring expenses) to the extent that such operating expenses exceed certain thresholds determined by Carlson in its sole discretion. This reimbursement will generally terminate at the expiration of the amortization period for organizational expenses of the Fund unless otherwise agreed by Carlson. Although Carlson will typically be entitled to the reimbursement of Fund organizational expenses, Carlson may elect to pay such expenses without reimbursement in certain circumstances.

The types of expenses borne by the owners of the Managed Accounts vary and are established in the Governing Documents of the Managed Accounts.

Administration Fees

Each Fund pays administrator fees and reimburses its administrator for all reasonable out-of-pocket expenses properly incurred by the Fund's administrator in the performance of its duties.

Sub-Advisor Fees and Expenses

To the extent a portion of the assets of a Fund (generally not to exceed a specified percentage of the net assets of a Fund) is managed directly by, or invested in investment funds managed or sponsored by, other investment advisers, unless provided otherwise in the applicable Governing Documents, such Fund will bear all direct and indirect costs associated with the investment advisory services of the sub-advisors managing assets for the Fund and the funds in which it invests. While the exact fees charged by each sub-advisor may differ, such fees will generally consist of one or both of the following: (i) a fixed fee that is a percentage of the net assets of the Fund managed by the sub-advisor and/or (ii) a performance fee equal to a percentage of the total appreciation, if any, in the net asset value of the assets of the Fund managed by the sub-advisor.

Please see Item 10 (Other Financial Industry Activities and Affiliations) and Item 12 (Brokerage Practices) below.

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

As described in Item 5 (Fees and Compensation) above, Carlson or an affiliate generally receives performance based allocations or fees with respect to each Client. Performance-based compensation arrangements may create an incentive for Carlson to recommend investments that are riskier or more speculative than would be recommended under a different compensation arrangement. The performance-based allocations or fees generally are calculated on a basis that includes unrealized gains as well as realized gains. Carlson may charge varying management fees or performance-based allocations or fees to each Client and may have an incentive to favor one Client over another. 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 Client is made in accordance with Carlson's investment allocation policy, which takes into account all relevant criteria, including the specific objectives of each Client, the size and capital available for investment by each Client, diversification needs, the size of the investment opportunity, current and

anticipated market conditions, and specific investment restrictions or guidelines applicable to each Client. Please see Item 10 (Other Financial Industry Activities and Affiliations) below.

Item 7 TYPES OF CLIENTS

As noted in Item 4 (Advisory Business) above, Carlson provides investment advice to the Funds, the CLOs, and the Managed Accounts. In general, interests in the Funds are only available to be purchased by “accredited investors” as defined in Regulation D under the Securities Act of 1933, as amended (the “Securities Act”), and “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Investment Company Act”), or “knowledgeable employees,” as defined in Rule 3c-5 under the Investment Company Act. The Managed Accounts generally are owned by pooled investment vehicles and large institutional investors, and ownership of a Managed Account is similarly limited to investors who are both “accredited investors” and “qualified purchasers.” Interests in the CLOs are generally only available to be purchased by “accredited investors”, “qualified purchasers” and “qualified institutional buyers” as defined in Rule 144A of the Securities Act. Additional details on investor eligibility requirements are set forth in each Client’s Governing Documents.

Generally, limited partners and shareholders in the feeder funds must invest a minimum dollar amount, generally ranging from \$1,000,000 to \$5,000,000, although such minimum amount may be and has been waived under certain circumstances at the sole discretion of Carlson. A higher minimum investment requirement may be imposed on certain series of interests or shares that may offer more favorable fee terms depending on the performance of the Fund.

Please see Item 4 (Advisory Business) above.

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.

Many investment strategies utilized by Carlson ordinarily attempt to reduce risk by hedging long positions with short positions and/or derivatives. For example, a purely long stock portfolio would be subject to the investment risks of its broad stock market exposure. Carlson believes that hedged investment strategies can significantly reduce market risk. As described in the Governing Documents of Clients, as applicable, and as described in Item 4 (Advisory Business) above, Carlson does not attempt to maintain a market neutral portfolio for all Clients and at times Carlson may cause a Client to take directional positions that may be affected by the condition of the market. In addition, Carlson may elect not to hedge certain positions and there can be no assurances that hedged strategies will be profitable in either up or down markets. Various market conditions may be materially less favorable to certain strategies than to others.

Investment Strategies

The principal investment strategies used by Carlson in managing the Clients are summarized below. One or more of these strategies may be allocated to the respective Clients in accordance with the

relevant Client's applicable investment guidelines. Investing in securities involves risk of loss that investors in a Client should be prepared to bear.

Equity Relative Value Strategies

Equity Relative Value strategies seek to identify equity securities and related instruments that are mispriced relative to other securities, groups of securities, or the overall market. Hedged positions are ordinarily established in an effort to isolate the discrepancy in value and minimize market risk. A typical hedged position involves the simultaneous purchase and short sale of two or more equity securities or related financial instruments or derivatives that Carlson believes are mispriced relative to each other. Investments may represent a short-term or long-term fundamental view on the relative performance of a specific security, relative to other similar securities or the overall market. Equity Relative Value strategies seek to exploit the long market bias of many investors. Many 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.

Equity Long/Short Strategies

Equity Long/Short strategies generally 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. Carlson seeks to balance the investments in the overall portfolio among individual strategies in order to minimize exposures to the market, various "macro" themes, or significant sector rotations.

Event-Driven Strategies

Event-driven strategies involve investing in securities and related derivatives of companies facing 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 attempt to ensure that, if events unfold as anticipated, the investment will generate the expected returns.

Fixed Income Strategies

Fixed income strategies seek to profit by identifying attractive risk/reward opportunities between individual securities and across asset classes. The strategy covers sovereign and corporate credit, emerging markets, rates and RMBS securities. Types of trades may include directional distressed and mispriced opportunities, capital structure arbitrage, relative value, convertible bond arbitrage and directional rate and curve strategies. Each trade and sub-

strategy is evaluated based upon its fit within the overall desired fixed income portfolio construct.

Macro Strategies

Macro strategies primarily include portfolio overlay hedges, interest rate positions and other opportunistic trades.

Strategic Investments

Carlson may make strategic investments on behalf of certain Clients, typically in smaller public and private companies in industries where Carlson has deep research expertise and industry knowledge. Recent examples have included investments in the banking, energy and insurance markets.

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

Carlson generally maintains maximum flexibility in its trading and investment strategy in order to take advantage of what Carlson considers to be buying or selling opportunities for the Clients. There is, therefore, generally no limitation on the type of securities or financial instruments in which the Clients may invest, on the origin or nature of the issue of securities or financial instruments held by the Clients, or on the currency denomination of such securities or financial instruments. The Clients may invest in restricted or illiquid securities that are not readily marketable. Notwithstanding the foregoing, Carlson may agree to limit the investments by a Managed Account to certain securities and instruments or agree not to invest in certain securities or instruments on behalf of such Managed Account.

Leverage

Borrowing, or leverage, generally is used to enhance returns. The amount of leverage used will vary with the number and quality of investment opportunities available to Clients and with the perceived risk level of each Client's portfolio and otherwise as described in the Governing Documents of such Client.

Risk Management

Carlson implements certain risk management processes in managing the portfolios of the Clients. These risk management processes, include, but are not limited to, the establishment of clear investment themes, exhaustive research on security selection, continuous monitoring of investments, a commitment to hedging unwanted risks, a multi-layered risk measurement and management infrastructure and a review of the appropriate level of leverage in such portfolios.

Carlson conducts a thorough process to seek to understand the various risks to each position in the portfolio. Carlson will examine the identified risks specific to each investment and to the portfolio of each Client in general, and the availability of an appropriate hedge, and use that information to determine the suitability of an investment and the sizing of that investment. Carlson also uses

proprietary and third party analytic tools to monitor and report on many dimensions of potential risks in such portfolios.

The investment objectives and methods summarized above represent Carlson's current intentions. Depending on conditions and trends in financial markets and the economy in general, Carlson may pursue other objectives, employ other investment techniques or purchase any type of security or instrument that it considers appropriate and in the best interests of the Funds and the Managed Accounts, whether or not described in this Item.

Certain Risk Factors

Investing in the Clients 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 should carefully review the risks described in the offering memorandum and related documents, as applicable, for the relevant Client, 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, Clients may nonetheless be affected by the overall condition of financial markets. The following is a description of certain significant risks involved in Carlson's investment strategies. Not all of these risks will be equally relevant to a Client at any given time.

General Risks:

An investment in the Clients involves a high degree of risk and is suitable only for investors who can bear the economic risk of the loss of their investment, who have limited need for liquidity in their investment, and who either are sophisticated investors in connection with financial and business matters or are represented by such a person. Prospective investors should carefully review the risks involved in investing in the Clients, and should evaluate the merits and risks of such an investment in the context of their overall financial circumstances. The risk factors set out below do not purport to be exhaustive and potential investors should review the Governing Documents of each Client carefully in their entirety and consult with their professional advisers before making an application for an investment in the Clients.

Past Performance Not Indicative

There can be no assurance that Clients will achieve their investment objectives. The past investment performance of the Clients may not be indicative of the future results of an investment. ***No assurance can be made that profits will be achieved or that substantial losses will not be incurred.***

Potential Loss of Investment

There is a risk that an investment in the Clients will be lost entirely or in part. The Clients are not a complete investment program and should represent only a small portion of an investor's portfolio management strategy. Each prospective investor must have enough knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in a risky investment like the Clients, whose performance may be highly volatile. No guarantee or representation is made that the investment strategy of a Client will be successful, that the targeted return or risk will be achieved or maintained, or that the various

investment strategies utilized or investments made through a Client will have low correlation with each other or with the markets generally.

Investment and Trading Risks in General

All securities investments risk loss of capital. Although Carlson employs certain strategies that are intended to be market neutral, this does not mean that the Clients will not be affected by the condition of financial markets. There can be no assurance that hedged strategies will be successful in up or down markets.

The Clients' investment program should be evaluated on the basis that there can be no assurance that Carlson's assessments of the short-term or long-term prospects of investments will prove accurate. If Carlson's evaluation of the anticipated outcome of an investment should prove incorrect, the Clients could experience substantial losses as a result of a decline in the market value of securities or other assets in which the Clients hold a long position or an increase in the value of securities or other assets in which the Clients hold a short position. International securities and commodities markets may not move in correlation with each other or in directions anticipated by Carlson, so that hedging and arbitrage activities may not be successful. Substantial competition from other market participants may render it difficult or impossible for the Clients to achieve intended results or promptly to effect transactions in volatile markets. The risk management techniques that may be utilized by Carlson may not protect Clients from significant investment losses.

Limited Liquidity

There is no public market for subscription interests in the Funds, and it is not anticipated that there will be any active secondary market for trading in such interests. The interests in the Funds are not registered so as to permit a public offering under the securities laws of any jurisdiction. The interests in the Funds will not be transferable to any other person without the prior written consent of Carlson or CCGP, as applicable. Accordingly, investors in the Funds may be able to dispose of their interests only by means of withdrawals at the time, and subject to the prior notice and other conditions and restrictions, described in the offering memoranda of the Funds. Consequently, these interests in the Funds may be illiquid investments. The risk of any decline in the net asset value of the interests during the period from the date of notice of withdrawal until the effective date of the withdrawal will be borne by the investor requesting a withdrawal. Carlson or CCGP, as applicable, may postpone the determination of a Fund's net asset value, and/or the right of an investor to withdraw from the Fund (in full or in part) and/or the payment of withdrawal proceeds (in full or in part) in certain circumstances as set forth in the Fund's Governing Documents.

Hedging

The Clients may utilize financial instruments such as forward contracts, options, futures and swaps for hedging 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 seeks to establish other positions designed to gain from those same developments, with the goal of moderating the

decline in the value of the portfolio positions. Hedging transactions may also limit the opportunity for gain if the value of the portfolio position should increase.

The success of the Clients' hedging transactions is subject to the movements in the direction of securities prices and currency and interest rates. The degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. A Client may not seek to, or be able to, establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Client from achieving the intended hedge or expose the Client to risk of loss.

Risk Arbitrage

Prices of securities of companies involved in merger or other extraordinary transactions may be volatile, and market movements may be difficult to predict. The profit that the Clients may make if a proposed transaction is consummated may be small in relation to the amount that the Clients may lose if the transaction is not completed. The success of an arbitrage opportunity may depend on such variables as shareholder approval of a merger, the outcome of litigation seeking to enjoin a transaction, approval of regulatory or tax authorities, or the absence of material adverse change to the business or financial condition of the companies involved in the transaction. A delay or failure to complete a transaction may result in losses to the Clients.

Financing and Leverage

The investment strategies utilized by a Client may include the use of borrowing funds and otherwise obtaining leverage exposures to finance instruments. Use of leverage for investment purposes entails significant risks. Use of leverage tends to magnify the gains or losses from investment activities and volatility, since the value of investments purchased using leverage may increase or decrease whereas the liabilities for such leverage generally remain fixed. Use of leverage also causes a Client to incur interest and other expenses. If securities pledged to brokers or other financial institutions to secure a margin account decline in value, the Client could be subject to a "margin call," pursuant to which it must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The prime brokers and dealers that provide financing to the Clients will determine the margin, haircut and collateral valuation policies that will apply to the Clients from time to time. Changes by prime brokers and dealers in margin, haircut, financing and valuation policies may result in margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that the Clients will be able to maintain any financing, and at times, especially during distressed market conditions, brokers and dealers have substantially reduced the availability of credit. If a Client is unable to obtain financing on terms acceptable to Carlson, the Client could be forced to liquidate portfolio investments on a schedule that Carlson would not otherwise follow and incur significant losses.

Equity Securities

The Clients generally may invest in long and/or short positions in equity securities. Equity securities fluctuate in value, often based on factors unrelated to the value of the issuer of the securities. The market price of equity securities may be affected by general economic and market conditions, such as a broad decline in stock market prices or in the prices of issuers in a particular market, geographic or industry sector, or by conditions affecting specific issuers, such as changes in earnings forecasts.

Short Sales

Short sales, which involve a sale of a security that the seller does not own in the hope of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price, can result in profits when the prices of the securities sold short decline, and losses, which are theoretically unlimited, when such prices increase. The risk is heightened when the Client engages in short sales relating to highly volatile issuers.

Options

The Clients may invest in, or write, options. The purchaser of a put or call option runs the risk of losing the entire investment in a relatively short period of time if an option expires unexercised. The uncovered writer of a call option is subject to a risk of loss should the price of the underlying security increase, and the uncovered writer of a put option is subject to a risk of loss should the price of the underlying security decrease.

Convertible Instruments

The Clients may invest in convertible instruments. A convertible instrument is a bond, debenture, note, preferred stock, or other security that may be converted into or exchanged for a prescribed amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. Convertible debt instruments have characteristics of both fixed income and equity investments. The Clients may invest in convertible instruments that have varying conversion values. If a convertible instrument held by a Client is called for redemption, the Client will be required to permit the issuer to redeem the instrument, or convert it into the underlying stock, and will hold the stock to the extent Carlson determines that such equity investment is consistent with the investment objective of such Client.

Distressed Investments

The Clients may invest in securities and obligations of bankrupt entities or entities experiencing financial difficulties that involve a substantial degree of risk. A Client may lose a substantial portion or all of its investment in such an entity or may be required to accept cash or securities with a value less than such Client's investment. It may be difficult to obtain information as to the true financial condition of entities experiencing significant financial or business difficulties. Investments in distressed companies also may be adversely affected by state and federal laws relating to fraudulent conveyances, voidable preferences, lender liability and the bankruptcy courts' discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of instruments issued by distressed companies may be

subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and ask prices of such instruments may be greater than normally expected. It may take a number of years for the market prices of such securities to reflect their intrinsic values. Some of such securities in a Client's portfolio may not be widely traded, and such positions may be substantial in relation to the market for such securities. Funding a plan of reorganization involves additional risks, including risks associated with equity ownership in the reorganized entity. Investments in distressed securities made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may involve substantial litigation.

Debt Investments

The Clients generally may invest in debt securities or debt instruments. These types of investments are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). With bonds and other fixed income securities, a rise in interest rates typically causes a fall in values, while a fall in interest rates typically causes a rise in values. The risk of debt securities varies significantly depending upon factors such as the issuer and maturity. For example, the issuer of a security or the counterparty to a contract may default or otherwise become unable to honor a financial obligation. Debt investments in some companies may be riskier than investments in the stocks of others.

Loans

The Clients generally may invest in loans. Loans include fixed and floating rate loans arranged through private negotiations between one or more financial institutions and a borrower. Although loans are traded among certain financial institutions, some of the loans that the Clients may invest in will be considered illiquid.

Loan Participations

The Clients generally may invest in loan participations. Investment in loan participations involves certain risks in addition to those associated with direct loans. A loan participant has no contractual relationship with the borrower of the underlying loan. As a result, the participant is generally dependent upon the lender to enforce its rights and obligations under the loan agreement in the event of a default, and may not have the right to object to amendments or modifications of the terms of such loan agreement. A participant in a syndicated loan generally does not have the voting rights, which are retained by the lender. In addition, a loan participant is subject to the credit risk of the lender as well as the borrower, since a loan participant is dependent upon the lender to pay its percentage of payments of principal and interest received on the underlying loan. A Client will acquire participations only if the seller of the participation is determined by Carlson to be creditworthy.

Swaps and Derivatives

The Clients may invest and trade in swaps and other "synthetic" or derivative instruments, including contracts for differences, over-the-counter ("OTC") options, non-deliverable

forward contracts and other customized financial instruments issued by banks, brokerage firms or other financial institutions, both for hedging purposes and as an alternative to direct investments in the underlying financial instruments. A swap is an agreement between a Client and a financial intermediary whereby cash payments periodically are exchanged between the parties based upon changes in the price of underlying financial instrument(s) (such as an equity security, a fixed-income security, an index of securities, a currency, or another asset or group of assets with a readily determinable value). For example, an interest rate swap involves one party agreeing to make periodic fixed payments to the other party in return for the other party agreeing to make periodic payments to the first party that vary with a variable interest rate indicator. The risks associated with derivative transactions are potentially greater than those associated with the direct purchase or sale of the underlying financial instrument(s) because of the additional complexity and potential for leverage. To the extent the relevant swap or other derivative is not executed through a clearing agency, derivatives clearing organization or other centralized clearing platform, such swaps and other derivatives are subject to the risk of non-performance by the swap counterparty, and may create credit risk (the risk that a counterparty on a derivative transaction will not fulfill its contractual obligations), as well as legal, operational, reputational and other risks beyond those associated with the direct purchase or sale of the underlying financial instrument(s) to which their values are related. While recent regulatory changes have expanded the types of swaps and other derivatives cleared through a derivatives clearing organization or other centralized clearing platform, many swaps and other forms of derivative instruments are not currently guaranteed by an exchange or clearing house or regulated by any U.S. or foreign governmental authority. In such circumstances, it is often not possible to dispose of or close out a swap or other derivative position without the consent of the counterparty, and a Client may not be able to enter into an offsetting contract in order to be able to cover its risk. Additional regulatory changes in the U.S. and other jurisdictions may significantly impact the trading of swaps and other derivatives in the future.

Spread Trading and Arbitrage

A part of Carlson's investment operations may involve spread positions between two or more securities or derivatives positions, or a combination of the foregoing. Carlson's trading operations also may involve arbitraging between two securities, between the security and security options markets, between derivatives and securities and/or options, between two derivatives and/or any combination of the above. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. These offsetting positions entail substantial risk that the price differential could change unfavorably, thereby causing a loss to the position.

Illiquid Investments

Certain securities and other assets acquired by Clients may not be readily marketable at acquisition or may become illiquid (e.g., due to the relevant issuer becoming distressed). Clients 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 OTC basis. A Client may not be readily able to dispose of such non-publicly traded or less-liquid securities, and in some cases, may be prohibited from disposing of such securities for a specified period of time. An exchange or regulatory authority may suspend trading in a

particular security or contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. Currency forward contracts and other derivative instruments not traded on regulated exchanges may be entered into with banks, brokerage firms and other counterparties, may not be assigned without the consent of the counterparty, and may result in losses in the event of a default or bankruptcy of the counterparty.

Effect of Regulatory Requirements

The ability of a Client to transact in financial instruments it holds may be impacted by regulatory requirements, which may also require that certain holdings be publicly disclosed. The Clients (separately or together) may own more than a certain percentage of a class of securities of an issuer, as a result of which one or more of the Clients could be limited in transacting in such securities (or corresponding swaps and other derivative instruments) for a period of time. One or more of the Clients and/or Carlson or its affiliates may receive non-public information regarding an issuer, which would restrict the Clients' ability to trade in the securities of the issuer (or corresponding swaps and other derivative instruments). These and other regulatory requirements may cause the Clients to be unable to transact in securities of an issuer (or corresponding swaps and other derivative instruments) when doing so would otherwise be in their best interests. For example, such a "lock-up" period may require the Clients to hold a security or other financial instrument when its value is declining, resulting in losses.

Futures

The Clients may trade futures. Futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract held by a Client may result in substantial losses to the Client. The prices of futures contracts and options used for hedging purposes may not correlate with price movements of the underlying securities being hedged. Although the Clients generally seek to only purchase or sell commodity futures contracts if there is an active market for each such contract, no assurance can be given that a liquid market will exist for the contracts at any particular time. Futures exchanges and boards of trade may limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit. Futures contract prices could move to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of futures positions and subjecting some futures traders to substantial losses.

Futures exchanges may impose position accountability limits (the "Position Accountability Limits") with respect to certain futures contracts traded on each particular futures exchange. Position Accountability Limits are triggers that would bring the Clients' position(s) to the attention of the exchange. Through the application of Position Accountability Limits, exchanges can prohibit an investor from holding a position of more than a specific number of futures contracts. Under the rules of a futures exchange, if the Clients (separately or together) hold a certain number of futures contracts approaching the Position Accountability Limits, the Clients may be required by the futures exchange to limit or decrease their holdings

of such futures contracts pursuant to the futures exchange's Position Accountability Limits. If the Clients are required to either limit or decrease their holdings of such futures contracts, or if an exchange lowers its Position Accountability Limits, the Clients' returns may be adversely impacted. As noted, such limitations may arise due to aggregation of the Clients' holdings.

Non-U.S. Investments

The Clients may invest in U.S. or non-U.S. securities denominated in non-U.S. currencies and/or traded outside of the United States. Such investments require consideration of certain risks typically not associated with investing in U.S. securities or property. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by the United States or non-U.S. governments, U.S. and non-U.S. withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries, and economic or political instability in non-U.S. nations.

There may be less publicly available information about certain non-U.S. issuers than would be the case for comparable issuers in the United States, and certain non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. issuers. Securities markets outside the United States, while growing in volume, have for the most part substantially less volume than U.S. markets, and many securities traded on these non-U.S. markets are less liquid and their prices more volatile than securities of comparable U.S. companies. Settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets, which may result in delays that cause one or more Clients to miss attractive investment opportunities. There also may be less extensive regulation of the securities markets in particular countries other than in the United States.

Additional costs could be incurred in connection with non-U.S. investment activities. Non-U.S. brokerage commissions generally are higher than in the United States. Expenses also may be incurred on currency exchanges when a Client changes investments from one country to another. Increased custodian costs as well as administrative difficulties (such as the applicability of non-U.S. laws to non-U.S. custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

Non-U.S. Dollar Denominated Investments

The Clients may invest in financial instruments denominated in currencies other than the U.S. dollar and in other financial instruments, the price of which is determined by reference to currencies other than the U.S. dollar. Clients, however, generally value their respective assets in U.S. dollars. To the extent a Client's exposure to assets denominated in, or whose value is determined by reference to, non-U.S. currencies is not hedged, the value of their assets will fluctuate with U.S. dollar exchange rates as well as with price changes of investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which a Client makes its investments will reduce the effect of increases and magnify the effect of decreases in the prices of such Client's financial

instruments in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of a Client's non-U.S. dollar financial instruments. Further, it is possible that a currency hedge will fail to protect a Client fully from fluctuations in currency exchange rates. Currencies of emerging market countries may be less liquid than currencies of developed countries, which may adversely affect a Client's ability to enter or exit an investment when it desires to do so.

Currencies

The Clients may trade currencies for hedging purposes. Currency markets are highly volatile, and currency trading is highly leveraged. Governments from time to time intervene, directly and by regulation, in the currency markets, with the specific intention of influencing the exchange rates. Currency markets are also, in general, highly interest rate sensitive, and may also be affected by trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The Clients may invest in currencies of emerging market countries, which may be less liquid than currencies of developed countries.

Forward Currency Contracts

The Clients may invest in forward currency contracts with banks, financial institutions or dealers acting as principal. Forward currency contracts may not be liquid in all circumstances, so that in volatile markets, to the extent a Client wishes to do so, it may not be able to close out a position by taking another position equal and opposite to such position on a timely basis or without incurring a sizeable loss. Closing transactions with respect to forward currency contracts usually are effected with the currency trader who is a party to the original forward contract and generally require the consent of such trader. There can be no assurance that the Clients will be able to close out their respective obligations.

There are no limitations on daily price moves in forward contracts. Banks and other financial institutions with whom Clients may maintain accounts may require margin deposits with respect to such trading. Banks are not required to continue to make markets in forward contracts. There have been periods during which certain banks have refused to quote prices for such forward contracts or have quoted prices with an unusually wide spread between the price at which the bank is prepared to buy and that at which it is prepared to sell. Trading of forward contracts through banks is not regulated by any U.S. governmental agency. The Clients will be subject to the risk of bank failure and the inability of, or refusal by, a bank to perform with respect to such contracts.

Investments in Secured Loans

The assets of the portfolio of the Clients may include secured debt, which involve various degrees of risk of a loss of capital. The factors affecting an issuer's secured leveraged loans, and its overall capital structure, are complex. Some secured loans may not necessarily have priority over all other debt of an issuer. For example, some secured loans may permit other secured obligations (such as overdrafts, swaps or other derivatives made available by members of the syndicate to the company), or involve secured loans only on specified assets of an issuer

(e.g., excluding real estate). Issuers of secured loans may have two tranches of secured debt outstanding each with secured debt on separate collateral. Furthermore, the liens referred to herein generally only cover domestic assets and non-U.S. assets are not included (other than, for example, where a borrower pledges a portion of the stock of first-tier non-U.S. subsidiaries). In the event of Chapter 11 filing by an issuer, the U.S. Bankruptcy Reform Act of 1978, as amended, authorizes the issuer to use a creditor's collateral and to obtain additional credit by grant of a priority lien on its property, senior even to liens that were first in priority prior to the filing, as long as the issuer provides what the presiding bankruptcy judge considers to be "adequate protection" which may but need not always consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of priority liens on the Clients' collateral would adversely affect the priority of the liens and claims held by the Clients and could adversely affect the Clients' recovery on the affected loans. Any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. Moreover, underlying assets are subject to credit, liquidity, and interest rate risk.

ABS and MBS

Clients may invest in asset-backed securities ("ABS") and mortgage-backed securities ("MBS"). The investment characteristics of ABS and MBS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying MBS and ABS will be affected by a variety of factors, including the prevailing level of interest rates as well as the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the mortgage loans, possible changes in tax laws, other opportunities for investment, homeowner mobility and other economic, social, geographic, demographic and legal factors. In general, any factors that increase the attractiveness of selling a mortgaged property or refinancing a mortgage loan, enhance a borrower's ability to sell or refinance or increase the likelihood of default under a mortgage loan would be expected to cause the rate of prepayment in respect of a pool of mortgage loans to accelerate. Particular investments may experience outright losses, as in the case of an interest only security in an environment of faster actual or anticipated prepayments. Also, particular investments may underperform relative to hedges that a portfolio manager may have constructed for these investments, resulting in a loss.

In contrast, any factors having an opposite effect would be expected to cause the rate of prepayment of a pool of mortgage loans to slow. At any one time, a portfolio of MBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

Mortgage loans on commercial properties underlying MBS often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property.

Especially in the case of a mortgage-backed security related to commercial mortgage loans, the rate of principal payments on the loans in the related pool will also be affected by the nature and extent of any restrictions on prepayments that are set forth in the mortgage loans, and the extent to which such provisions may be enforced. Such restrictions may include a prohibition on prepayments for specified periods of time and/or requirements that principal prepayments be accompanied by the payment of prepayment penalties or be subject to yield maintenance premiums.

The rate of prepayment on a pool of mortgage loans is likely to be affected by prevailing market interest rates for mortgage loans of a comparable type, term and risk level. When the prevailing market interest rate is below a mortgage coupon, a borrower generally has an increased incentive to refinance its mortgage loan. Even in the case of adjustable rate mortgage loans, as prevailing market interest rates decline, and without regard to whether the mortgage rates on such loans decline in a manner consistent therewith, the related borrowers may have an increased incentive to refinance for purposes of either (i) converting to a fixed rate loan and thereby "locking in" such rate or (ii) taking advantage of a different index, margin or rate cap or floor on another adjustable rate mortgage loan. Therefore, as prevailing market interest rates decline, prepayment speeds would be expected to accelerate.

In the case of a mortgage-backed security related to multifamily or commercial loans, prevailing market interest rates, the outlook for market interest rates and economic conditions generally may cause some borrowers to sell their properties in order to realize their equity therein, to meet cash flow needs or to make other investments. In addition, some borrowers may be motivated by U.S. federal and state tax laws (which are subject to change) to sell their properties prior to the exhaustion of tax depreciation benefits.

ABS which represent an interest in a pool of assets such as credit card receivables, automobile loans or home equity loans, have yield and maturity characteristics corresponding to their underlying assets. The risk of each ABS depends both on the underlying assets and the legal structure of such security. (For example, credit card receivables are generally unsecured and the debtors entitled to the protection of a number of state and federal consumer credit laws.) Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-through structures. Through

collateralized debt obligations, the Clients may invest in these and other types of ABS that may be developed in the future. ABS present certain risks that are not presented by MBS.

Primarily, these securities do not have the benefit of the same security interest in the related collateral. There is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. Further, unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain ABS include both interest and a partial payment of principal. This partial payment of principal may be comprised of a scheduled principal payment as well as an unscheduled payment from the voluntary prepayment, refinancing or foreclosure of the underlying loans. As a result of these unscheduled payments of principal, or prepayments on the underlying securities, the price and yield of ABS can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate, and the Clients would be required to reinvest the proceeds at the lower interest rates then available. Prepayments of loans that underlie securities purchased at a premium could result in capital losses because the premium may not have been fully amortized at the time the obligation is prepaid. In addition, like other interest-bearing securities, the values of ABS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment option.

The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor. The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by a pool of assets representing the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

Collateralized Loan Obligations

CLOs are pools of loans, the debt service on which is repackaged into cash flows payable on different tranches of debt collateralized by each pool. Payments on such debt are dependent on payments on the underlying loans. The CLOs may participate involve substantial organizational, syndication and ancillary fees. An investor's investment in a CLO may be subordinate in right of payment to other securities sold by the CLO and not readily marketable. Depending upon the default rate on the collateral of the CLO, an investor may incur substantial losses on its investment.

CLO securities are subject to various structural risks, including risks relating to the capital structure of the issuer thereof and the collateral management arrangements relating thereto. The capital structure of a CLO may be highly leveraged (which will affect the CLO securities of different seniorities in different ways), and the underlying instruments will generally contain various triggers and remedies, which may adversely affect the return of an investment in the CLO.

CLO securities are secured primarily by loans (including commercial loans and eligible synthetic securities whose reference obligations consist of commercial loans), which are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks. These risks could be exacerbated to the extent that the loans are concentrated in one or more particular types of loans.

Energy Sector Risks

Investments in the energy sector, which is a highly volatile sector, is subject to a number of sector-specific risks, including: commodity price risks, cyclical risks, supply risks, demand risks, risks relating to expansions and acquisitions, competition risks, weather risks, interest rate risks, and master limited partnership structure risks. In addition, energy sector companies are also subject to risks that are specific to the particular sub-sector of the energy sector in which they operate. Prospective investors are urged to review the Funds' offering memoranda for a more detailed description of these potential risk factors.

Use of Models and Software Programming

The success of certain systematic trading models developed by Carlson will depend on their ability to accurately predict future market prices, and upon the continuation of past correlations among the market prices of specific securities, markets generally, and the factors used in the models. These models may be inaccurate for a variety of reasons, including, but not limited to, erroneous underlying assumptions and estimates in respect of certain data, or other defects in inputs and the models, or because future events may not necessarily follow historical norms. To the extent that such models, or the assumptions underlying them, are not correct, the Clients may sustain losses. Even if the same correlations continue to exist in the future, they may not exist over the period of any particular investment. Carlson has broad discretion to modify, add or delete specific trading models without notice to investors.

Carlson's systematic approach to the investment process requires programming of software. Mistakes are periodically made in such programming. In addition, technical issues periodically arise in computer hardware or software utilized by Carlson in managing a Client's portfolio. Although Carlson engages in substantial efforts to mitigate the risk and effect of such mistakes, mistakes of such type could affect a Client's portfolio and investment returns. Prospective investors should understand that hardware and software errors and their ensuing risks are an inherent risk of investing with a process-driven, systematic investment manager such as Carlson. Moreover, Carlson generally does not expect to disclose to investors hardware or software errors Carlson detects.

Level of Trading Activity

One or more of the Clients may engage in a high level of trading activity. As a result, higher commissions may have to be paid by such Clients in comparison to other Clients or third party investment funds.

Securities Lending

The Clients may borrow or lend securities in the ordinary course of its business. The supply of securities that can be borrowed fluctuates from time to time. The Clients may be subject

to losses if a security lender demands return of the borrowed security and an alternative lending source cannot be found or if a Client is otherwise unable to borrow securities that are necessary to hedge its positions. If a securities lender were to demand the return of a loaned security and no replacement loan were obtained, one or more of the Clients may be forced to close out their respective short sale positions regardless of the market conditions. Such an event could adversely affect the valuation of the assets of such Clients.

Parties that borrow securities from the Clients may not be able to return these securities on demand (possibly causing the Clients to default on their obligations to other parties) and may also default on the payment obligations owed to the Clients in connection with such securities loans. In addition, assets pledged by the borrower as collateral for the borrowed securities may decline in value. The Clients may lose the entire value of the securities they lend to defaulting borrowers.

Insurance Risks

Two of the Funds have made a significant investment in an insurance company and one or more of the Funds may engage, directly or indirectly, in other insurance-related activities, and accordingly will be exposed to the risks of the insurance business, including in particular exposure to potential losses caused by natural disasters and other events against which the Funds or an entity in which the Funds have invested has written insurance.

Counterparty Creditworthiness

To the extent that Clients engage in uncleared OTC transactions, they must rely on the creditworthiness of its counterparty. Clients generally are not limited in the amount of their respective assets that may from time to time be subject to the risk of non-performance by a counterparty. The Clients may at certain times have a material portion of their assets exposed to the credit risk of a particular custodian, futures clearer, broker, clearinghouse, exchange or counterparty. Such a concentration could magnify the risks to the Clients of a failure of one or more of such custodians, futures clearers, brokers, clearinghouses, exchanges or counterparties.

Brokerage and Custodial Risks

There are risks involved in dealing with the custodians or prime brokers who settle trades and hold assets for the Clients. Although Carlson monitors the prime brokers and custodians used by the Clients and believes that they are appropriate custodians, there is no guarantee that the Clients' prime brokers and custodians will not become bankrupt or insolvent. While U.S. laws seek to protect customer property in the event of a bankruptcy, insolvency, failure or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of the Clients' assets, the Clients would not incur losses due to their assets being unavailable for a period of time, the ultimate receipt of less than full recovery of its assets, or both.

The Clients, their prime brokers or custodians may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of the Clients. The Clients' prime brokers and custodians may not be responsible for cash or assets which are held by sub-custodians in certain non-U.S.

jurisdictions, nor for any losses suffered by the Clients as a result of the bankruptcy or insolvency of any such sub-custodian. The Clients may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections that would normally be provided to a Client by a custodian may not be available to the Clients. Under certain circumstances, including certain transactions where the Clients' assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of one of the Clients' prime brokers or custodians, or where the Clients' assets are held at a non-U.S. custodian, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of the Clients and the Clients could be exposed to a credit risk with regard to such parties. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial activities and bankruptcy, insolvency or mismanagement in certain non-U.S. jurisdictions, the ability of the Clients to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy or insolvency could be in doubt, as the Clients may be subject to significantly less favorable laws than many of the protections that would be available under U.S. laws. In addition, there may be practical or timing problems associated with enforcing the Clients' rights to their assets in the case of a bankruptcy or insolvency of any such party.

Cybersecurity Risks

Carlson, its service providers, its counterparties and other market participants on whom Carlson relies increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Clients and/or their investors, despite the efforts of Carlson, its service providers, its counterparties and other market participants on whom Carlson relies to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Clients and/or their investors. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of or prevent access to these systems of Carlson, its service providers, its counterparties and other market participants on whom Carlson relies or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of systems to disclose sensitive information in order to gain access to Carlson's data or that of its investors. A successful penetration or circumvention of the security of Carlson's systems or the systems of Carlson's service providers, counterparties or other market participants on whom Carlson relies could result in the loss or theft of an investor's data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Clients, Carlson, their service providers, their counterparties and other market participants on whom Carlson relies to incur regulatory penalties, reputational damage, additional compliance costs or financial loss. Similar types of operational and technology risks are also present for many portfolio companies, which could have material adverse consequences for such investments, and may cause the Clients' investments to lose value.

Fees and Expenses of Sub-Advisors

To the extent a portion of the assets of a Client is managed directly by, or invested in investment funds managed or sponsored by, one or more third-party investment advisers, such Client will pay fees to such sub-advisors and will bear their respective shares of the expenses of such sub-advisors in addition to the fees paid to Carlson and the expenses of such Client. The fees and expenses payable by the Clients may be higher than those of other investment funds, particularly those that do not use any sub-advisors. The Clients may be required to pay an incentive fee based upon profits generated by one sub-advisor even though another sub-advisor or the Client as a whole may have realized a loss. Performance fees payable to the sub-advisors may create an incentive to make investments that are more speculative than would be the case in the absence of such performance fees.

Regulatory Oversight

Although Carlson is registered with the SEC as an investment adviser pursuant to the Investment Advisers Act of 1940, as amended (“Advisers Act”), the Funds are not registered under the Investment Company Act. Accordingly, certain protections provided by the Investment Company Act (which, among other things, require investment companies to have a certain number of disinterested directors and regulate the relationship between the adviser and the investment company) will not apply to the Funds.

Reliance on Carlson and Key Personnel

Carlson has complete discretion in investing the Clients’ assets. Each Client’s success depends, to a great extent, on Carlson’s ability to identify successful investments and strategies. The departure, death or disability of a principal or other key personnel of Carlson or the withdrawal of Carlson could have a material adverse effect on the investment results of the Clients. In addition, no assurance can be given that Carlson will be able to retain its key personnel or to engage new personnel with comparable investment management skills.

Market Disruptions; Governmental Intervention; Dodd-Frank Wall Street Reform and Consumer Protection Act

The global financial markets have gone through pervasive and fundamental disruptions that have led to extensive and unprecedented governmental intervention. Such intervention was in certain cases implemented on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action, these interventions have typically been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies.

The Clients may incur major losses in the event of disrupted markets and other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the

markets are moving. The financing available to the Clients from their banks, dealers and counterparties is typically reduced in disrupted markets. Such a reduction may result in substantial losses to the Clients. Market disruptions may from time to time cause dramatic losses for the Clients, and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) established a comprehensive framework for the regulation of markets, market participants and financial instruments that were previously unregulated and substantially alters the regulation of many other markets, market participants and financial instruments. While many rules, reports and studies required by Dodd-Frank have been proposed or finalized, Dodd-Frank requires additional rulemaking by the applicable regulators before becoming fully effective and Dodd-Frank mandates additional multiple agency reports and studies (which could result in additional legislative or regulatory action). Given the fluid nature of these various rules, reports and studies, it is difficult to predict the ultimate impact of Dodd-Frank on the Clients or Carlson (or any affiliates thereof), or the markets in which the Clients will trade. Dodd-Frank could result in certain investment strategies in which the Clients engage or may have otherwise engaged becoming non-viable or non-economic to implement. Dodd-Frank and regulations adopted pursuant to Dodd-Frank could have a material adverse impact on the profit potential of the Clients.

The “Volcker Rule” component of Dodd-Frank materially restricts proprietary speculative trading by banks, “bank holding companies” and other regulated entities. As a result, there has been a significant influx of new portfolio managers forming and managing private investment funds who had previously traded institutional proprietary accounts. Such influx may cause an increase in competition for the Clients from other portfolio managers trading in similar markets to the Clients.

Legal, Regulatory and Political Uncertainties

Carlson and its affiliates are subject to a variety of governmental regulations in the United States and other jurisdictions that may result in additional compliance costs and other burdens and otherwise impact the performance of a Client. It is difficult to predict what changes in regulations may be instituted in the future, in addition to those changes already proposed or adopted in the United States or other jurisdictions.

The legal, tax and regulatory environment for alternative investment funds, investment advisers, the instruments they utilize and the markets in which they trade are continuously evolving. In addition to legal, regulatory and tax changes, there may be other unanticipated changes, including political developments. Such uncertainty may be detrimental to the efficient functioning of the financial markets and the success of certain products and strategies. Any changes to current regulations or any new regulations could have a material adverse effect on a Client (including by reducing the attractiveness of the Client’s investment strategies, imposing material costs on the Client, reducing investment opportunities, or requiring a significant restructuring of the manner in which the Client, Carlson or its affiliates are organized or operated).

Uncertainty of Certain Tax Positions; Risk of Audit

The Funds will be required to file tax returns with the United States Internal Revenue Service (“IRS”), and may be required to file tax returns or make other filings in other jurisdictions. The Funds may take positions with respect to certain tax issues that depend on legal conclusions not yet addressed by the courts. Should any such positions be successfully challenged by the IRS, an investor might be found to have a different tax liability for that year than that reported on its U.S. federal income tax return. In addition, the tax returns or other filings made by the Funds may be audited, and adjustments may be made to such returns as a result of such an audit. If an audit results in an adjustment, investors may be required to file amended returns (which may themselves be audited) and to pay back taxes with respect to prior periods. In addition, interest and penalties, which may be non-deductible, may be asserted and imposed on tax deficiencies as the result of an audit. An audit of the tax returns of the Funds could also result in an audit of the returns of individual investors. Any audit of an investor’s return could result in adjustments to income and deductions. Generally, upon an IRS audit, the tax treatment of Fund items will be determined at the Fund level, and such treatment generally will be binding on the individual investors. Current investors in the Funds may bear the economic effect of taxes, interest and penalties imposed on the Funds by taxing authorities with respect to income received by the Funds in earlier periods. The legal and accounting costs incurred in connection with any audit of the Client’s tax return will generally be borne by the Client.

Performance Allocation

The Performance Allocation payable to Carlson and its affiliates may create an incentive to make investments that are riskier or more speculative than would be the case in the absence of such an arrangement. Since the Performance Allocation is calculated on a basis that includes unrealized appreciation of assets, it may be greater than if such Performance Allocation were based solely on realized gains. The Clients may hold securities for which a market quotation is not readily available. Such securities may be valued, including as a basis for determining the amounts payable to Carlson and its affiliates, in part based on information provided by Carlson. With respect to certain Clients, the terms of the Performance Allocation and the Management Fee may be set without negotiation with any third party.

Risks of Diminished Liquidity

Investment funds and other investors engaged in strategies similar to or overlapping with that of the Clients have recently experienced periods of substantial illiquidity with respect to MBS and other fixed income securities. The inability of investors to sell these securities has and could lead to a potential inability to meet margin calls or fund redemptions, which in turn can lead to the collapse of a portfolio as dealers cut credit lines and investors withdraw capital, further reducing the creditworthiness of the Clients. In addition, certain provisions of Dodd-Frank and their implementation, including the Volcker Rule, have imposed greater constraints on liquidity, particularly in the bond and credit markets.

Concentration

Except as otherwise provided under their Governing Documents the Clients are generally not subject to any material concentration or diversification restrictions and may hold a limited number of concentrated investment positions. Such concentration may result in the investment portfolio of the Clients being subject to larger and more rapid changes in value than would be the case if the Clients were required to maintain a more widely diversified portfolio.

THE FOREGOING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED IN CARLSON'S METHODS OF ANALYSIS AND INVESTMENT STRATEGIES USED IN FORMULATING INVESTMENT ADVICE OR MANAGING ASSETS.

Please see Item 10 (Other Financial Industry Activities and Affiliations), Item 11 (Code of Ethics, Participation in Client Transactions and Personal Trading), and Item 12 (Brokerage Practices) below.

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 Managed Accounts in four secondary offerings between May and November 2008.

In December 2015, pursuant to the requirements in Finland to disclose net short positions in Finnish issuers, Carlson UK sent a public notification of a net short position in the issued share capital of Outotec Oyj on January 31, 2014. Thereafter, Carlson UK closed/covered the entire net short position in the issued share capital of Outotec Oyj on February 7, 2014. Inadvertently, and due to an administrative oversight in the calendaring of the reporting to the Finnish Financial Supervisory Advisory Authority ("FIN-FSA"), on February 8 2014, Carlson UK failed to report that it had in fact closed out its entire net short position in Outotec Oyj the prior trading day. Carlson UK took steps, on June 25th, 2015, to confirm to FIN-FSA that through an inadvertent oversight Carlson UK had failed to notify FIN-FSA that it had closed/covered its entire short position in Outotec Oyj on February 7th, 2014. On December 11, 2015, Carlson UK received notice of imposition of an administrative penalty in the amount of €30,000. Carlson UK fully paid the penalty and received notice of the satisfaction of the settlement on February 22nd, 2016. In order to guard against future irregularities in reporting, as of June 25, 2015, Carlson's Compliance department has instituted a process whereby two employees are responsible for verifying all the foreign reporting manually in addition to monitoring the automated reports.

Additional details regarding the events described above can be found in Carlson's Form ADV Part I, which can be accessed through the Securities and Exchange Commission (the "SEC") 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 limited liability partnership. As described in Item 4 (Advisory Business) above, Carlson UK is an affiliate of Carlson and an FCA registered investment adviser.

CCGP is the general partner of the U.S.-domiciled feeder funds. CCGP has delegated to Carlson the investment advisory authority for such Funds.

CCA is the collateral manager of the CLOs and a wholly-owned subsidiary of Carlson.

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 or reimbursed to the extent received.

The following is a list of the Funds:

- Black Diamond Partners, L.P.
- Black Diamond Ltd.
- Black Diamond Intermediate Ltd.
- Black Diamond Offshore Ltd.
- Double Black Diamond, L.P.
- Double Black Diamond Ltd.
- Double Black Diamond Intermediate Ltd.
- Double Black Diamond Offshore Ltd.
- Black Diamond Relative Value Partners, L.P.
- Black Diamond Relative Value Ltd.
- Black Diamond Relative Value Intermediate Ltd.
- Black Diamond Relative Value Offshore Ltd.
- Black Diamond Relative Value Cayman, L.P.
- Black Diamond Arbitrage Partners, L.P.
- Black Diamond Arbitrage Ltd.
- Black Diamond Arbitrage Intermediate Ltd.
- Black Diamond Arbitrage Offshore Ltd.
- Black Diamond Thematic, L.P.
- Black Diamond Thematic Ltd.
- Black Diamond Thematic Intermediate Ltd.

Black Diamond Thematic Offshore Ltd.
Black Diamond Energy L/S, L.P.
Black Diamond Energy L/S Ltd.
Black Diamond Energy L/S Intermediate Ltd.
Black Diamond Energy L/S Offshore Ltd.
Black Diamond Mortgage Opportunity II, L.P.
Black Diamond Mortgage Opportunity Offshore II Ltd.

The following is a list of the CLOs:

Cathedral Lake CLO 2013, Ltd.
Cathedral Lake II, Ltd.
Cathedral Lake III, Ltd.
Cathedral Lake IV, Ltd.

Certain Other Affiliations

Parallel Resource Partners, LLC (“Parallel”), a Delaware limited liability company, is owned in part by related persons of Carlson and is an SEC-registered investment adviser. Parallel provides investment advisory services, pursuant to the investment guidelines as set forth in the applicable offering memoranda, to certain private investment vehicles (the “ERR Funds”). The ERR Funds are privately-offered, private equity funds formed by Parallel to make control investments in distress-driven opportunities in the North American upstream oil and gas sector. None of the ERR Funds are currently offering securities.

Parallel is owned 50% by Bluescape Energy Partners, LLC and 50% by Carlson Energy Partners I, LLC (“CEP I”). Bluescape, a Delaware limited liability company, was formed in November 2010 to participate in the management of Parallel. CEP I was formed as a Delaware limited liability company in January 2011 to participate in the management of Parallel. CEP I is owned 50% in the aggregate by two employees of CEP I (Ron Hulme and John Howie) and 50% by affiliates of Carlson.

Clint D. Carlson serves on the Board of Managers of Parallel and may, from time to time, be given access to confidential information relating to companies in which the ERR Funds or the Clients invest. As a result, the Clients managed by Carlson may, under certain circumstances, be prohibited for a period of time from engaging in trading in certain issuers when doing so would otherwise be in their best interests. No employees of Carlson and its affiliates, other than Clint Carlson and employees of CEP I, may serve as officers, advisors, directors, or in comparable management functions, including serving on creditors’ committees, for portfolio companies in which the ERR Funds invest, or provide other services to such portfolio companies or receive compensation in connection therewith.

As of June 2015, the investment period of the ERR Funds was ended by agreement of the limited partners and the ERR Funds can make no further investments. Clint D. Carlson remains a member of the Board of Managers of Parallel as it continues to manage three existing portfolio companies through the ERR Funds.

Certain Conflicts of Interest

The non-exhaustive information contained below describes certain potential material conflicts of interest relating to Carlson's advisory business and relationships to related persons described above that may impact a Client. Each prospective investor in a Client must have enough knowledge and experience in financial and business matters to be capable of evaluating the potential material conflicts of interest that may arise in connection with the operation of such Client. No list of potential conflicts of interest can be expected to be full and complete. Each prospective investor should review the relevant Governing Documents in their entirety and discuss any proposed investment with his, her or its investment, tax, accounting, legal and other advisers prior to making any such investment.

Other Clients and Services

Carlson and its affiliates act, and may in the future act, as general partner, manager, director, administrator, trustee, custodian or in another capacity in relation to, or be otherwise involved in, other funds or accounts that have similar or overlapping investment objectives to those of the Clients. It is therefore possible that any of them may, in the ordinary course of their business, have potential conflicts of interests with the Clients. In providing services to a Client, Carlson may give advice and recommend securities, which advice or securities may be identical to, or differ from, advice given to, or securities recommended or bought for, another Client, even though their investment objectives may be the same or similar. Such other Client may be subject to different fees and expenses, and Carlson or its affiliates may own interests in some of such other Client. Such conflicts of interest may result in Carlson allocating investments to such other Client even if such investment opportunities are otherwise appropriate for the Client. Carlson may cause accounts managed by it, including but not limited to the Clients in which Carlson or an affiliate may own an interest, to enter into transactions with each other. Please see Item 12 (Participation in Client Transactions). The performance of the Clients and any other accounts managed in the future by Carlson may vary.

Allocation of Investment Opportunities

In the ordinary course of its activities, Carlson buys or sells for one Client the same securities as those traded by another Client. Carlson has the sole authority to determine how investment and trading opportunities are allocated among the Clients, even though it may face potential conflicts of interest in making such allocations. Carlson will act in a manner that it considers fair and equitable in allocating investment opportunities among the Clients, although situations may arise in which the activities of Carlson or one or more of the Clients may disadvantage one or more of the other Clients, such as the inability of the market fully to absorb orders for the purchase or sale of particular financial instruments placed by Carlson for all the Clients at prices and in quantities that would be obtainable if the same were being placed only for one Client. Carlson may aggregate and has aggregated orders of the Clients. Please see Item 12 (Order Aggregation and Allocation). Such aggregation of orders may not always benefit one or more particular Clients with regard to the price or quantity executed.

Co-Investment Opportunities

From time to time, Carlson may, in its sole and absolute discretion, offer certain parties, who may or may not be an investor in a Client, opportunities to co-invest in certain investments alongside a Client, without notice to, or the consent of, investors in the Client. Carlson will allocate co-investment opportunities among co-investors in any manner it so determines, taking into account those factors that it deems relevant under the circumstances, including, but not limited to: (i) whether a prospective co-investor has expressed an interest in participating in co-investment opportunities (including, for example, by election in such co-investor's side letter or investment management agreement, if applicable); (ii) the character or nature of the co-investment opportunity (e.g., its size, structure, geographic location, relevant industry, tax characteristics, risk and return characteristics and any contemplated minimum commitment threshold); (iii) the level of demand for participation in such co-investment opportunity; (iv) the ability of a prospective co-investor to analyze or consummate a potential co-investment opportunity on an expedited basis; (v) whether a prospective co-investor has previously declined to participate in a co-investment opportunity (and the number of times such prospective investor has previously declined); (vi) whether or not the prospective co-investor is willing to pay performance compensation and management fees in respect of the co-investment; (vii) the size of a prospective co-investor's investment in a Client or in past or current co-investment opportunities; (viii) whether Carlson is required to offer such co-investment opportunity to such prospective co-investor (e.g., pursuant to such co-investor's side letter, investment management agreement or the governing documents of the applicable Client) or other fiduciary considerations; (ix) the strategic value of a prospective co-investor to the co-investment opportunity; and (x) legal, regulatory and tax considerations. The relevance of each of these factors will vary depending on the co-investment opportunity with no single factor consistently outweighing the others. Notwithstanding the foregoing, Carlson may in the future update or develop additional policies and procedures to address the allocation of co-investment opportunities without notice to, or the consent of, investors in any Client. Such policies and procedures may differ from Carlson's current practice.

Other Activities

Carlson and its affiliates may engage in other activities, and will determine how much time and attention they will devote to the affairs of the Clients.

A director of certain of the offshore Funds acts as a placement agent ("Agent") on behalf of Carlson for certain Funds (collectively, the "Placement Funds") and is affiliated with a company with which Carlson has a placement agreement. As a placement agent, the Agent is incentivized to maximize the amount of capital the Agent raises for the Placement Funds and to encourage investors to maintain their investment in the Placement Funds. As a consequence, the Agent's activities as a placement agent may, at times, conflict with his fiduciary duties as a director of certain of the offshore Funds, which obligate him to act at all times in the best interests of these Funds. The Agent has indicated that he is aware of his fiduciary obligations and the potential conflict and does not believe that any such conflict interferes with his ability to exercise independent judgment on behalf of the Placement Funds. The Agent is paid a percentage by Carlson of the management fee and performance allocation otherwise due to Carlson or CCGP under the Investment Advisory Agreement between the Placement Funds and Carlson. Additionally, the Agent is a former minority owner and

member of the executive committee of a Swiss-based bank with whom the above listed Clients have entered into a paying agency agreement in order to market to certain qualified investors in Switzerland in accordance with applicable law.

Representatives of Carlson may serve as members of the board of directors or creditors committee of a portfolio company, or be given access for other reasons to confidential information relating to companies in which the Clients invests. As a result, the Clients may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or securities of such a portfolio company. Such activities may also limit the amount of time that such representatives of Carlson may devote to Carlson and its Clients. Employees of Carlson may also from time to time receive compensation directly from a portfolio company for such service. Receipt of such compensation may create a conflict of interest between a board member's personal interests, the interests of the Clients, and the interests of the portfolio company and its other shareholders. While Carlson has compliance policies and procedures designed to monitor conflicts of interests relating to the outside activities of employees of Carlson, such as serving as a member of the board of directors of a portfolio company, such policies and procedures may not be effective.

Investments in other Investment Vehicles

A portion of the assets of certain Clients may be managed directly by, or invested in investment funds managed or sponsored by, other investment advisors selected by Carlson, to the extent Carlson considers the investment strategies offered by such advisors appropriate and consistent with the Clients' investment objectives. A portion of the assets of certain Clients may also be invested in other investment vehicles managed by Carlson, its affiliates, a portfolio company in which the Clients may have an investment, or affiliates of such a portfolio company. Such investment vehicles may include private funds, "overflow" or "side car" vehicles, collateralized debt obligations, or other structured or special investment vehicles. The portion of the assets of the Clients allocated to investment advisors that are not controlled by or under common control with Carlson generally will not exceed 10% of the net assets of the Clients at the time of the allocation. Carlson will waive any fees payable or reimburse, to the extent received, any fees paid by any investment vehicle in which the Clients invest to Carlson or an affiliate controlled by or under common control with Carlson, to the extent that such fee is attributable to the investment by Clients in such vehicle. Carlson and its affiliates will be entitled to retain any fees paid by any such investment vehicle that are not attributable to the investment by Clients in the vehicle.

Item 11 CODE OF ETHICS, PARTICIPATION 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") reasonably 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 U.S. federal securities law and the highest standards of business conduct.

Each employee has access to the Code, is 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.

The Code is available to all current or prospective investors upon request to the Compliance Department or Investor Relations Department at 2100 McKinney Avenue, Suite 1800, Dallas, TX 75201 or via compliance@carlsoncapital.com or investorrelations@carlsoncapital.com.

Material, Non-Public Information

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 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 Clients. Carlson's possession of such information may, therefore, cause the Clients to be prohibited from trading the securities of the issuer until such time as the information is made public.

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 Clients 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 and investors 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.

Personal Trading

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

The Personal Trading and Investment Holdings Policy requires pre-approval of all transactions in most securities (with the exception of certain "Exempt Securities," as described below) by employees for their, or members of their households', personal investment 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 Clients and in keeping with 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), municipal bonds, commodities and currencies (including 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 and Investment Holdings Policy prohibits employee trading in securities for which there is a pending or completed order for any Client on the day of the request, trading in sectors in which the employee manages a portfolio for Carlson, and trading within two days against orders placed on behalf of any Client. The Personal Trading and Investment Holdings Policy prohibits trading of options and derivatives in personal investment accounts. Execution traders must limit their personal trading to Exempt Securities. The Personal Trading and Investment Holdings Policy includes a required 90-day holding period for any employee securities holdings other than Exempt Securities unless an investment has decreased in value by 10% within the 90-day minimum holding period, in which case permission will ordinarily be granted to exit the position. 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 (as defined under Rule 204a-1). 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 Clients. Carlson does not generally invest directly on its own behalf in investments outside of the Clients. To the extent the consent of a Fund or CLO is required under Section 206(3) of the Advisers Act with respect to any proposed transaction to be entered into by the Fund or CLO, Carlson shall obtain the consent of the Fund or CLO for such proposed transaction by obtaining the consent of the Directors of the Fund (which with respect to a U.S.-domiciled feeder fund shall be the Directors of the master fund) or CLO who are independent from, and unaffiliated with, Carlson and its affiliates or such other independent representative of the Fund or CLO as appointed by such Directors with the consent of Carlson or in any other manner that complies with the Advisers Act.

Carlson may engage in transactions between two or more Clients (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 performance-based compensation payable to Carlson or an affiliate by such Client. 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 Clients 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 Clients to enter into cross transactions with each other when such a transaction is consistent with the investment objectives and policies of each Client involved in the transaction. Carlson does not charge any commission or other fee in connection with a cross transaction, although there may be fees charged by third parties such

as the executing broker. Any third-party transfer fees will be divided evenly between the buying and selling Clients.

Item 12 BROKERAGE PRACTICES

Selection of Brokers-Dealers

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, 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 and its affiliates may have other business arrangements with brokerage firms used to execute transactions for the Clients. 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 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 Clients.

Research and Other Soft Dollar Benefits

Carlson may cause a higher commission to be paid to a broker-dealer that furnishes research, brokerage and other related services than might be charged by another broker-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-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.

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 Clients and those of Carlson.

Research and brokerage products or services provided by brokers may be used in servicing any or all of the Clients, and such research and brokerage products or services may not necessarily be used by Carlson in connection with the Clients that paid commissions to the broker providing such products or services. Carlson may not allocate soft dollar benefits to the Clients proportionately to the soft dollar credits that each Client generates. The allocation of brokerage commissions paid to each broker in return for research is monitored on a periodic 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.

Brokerage for Client Referrals

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.

Order Aggregation and Allocation

Carlson has established allocation and aggregation procedures for the allocation of portfolio investment transactions among the Clients. The allocation and aggregation procedures are designed to ensure that each Client is treated fairly and that transactions are allocated in a manner that is fair and equitable to each Client, 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 Clients 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 Client as compared to another Client, taking into account all relevant criteria, as described in Item 6 (Performance-Based Fees and Side-by-Side Management) above.

Carlson buys and sells investment securities conforming to the specific objectives and constraints of each Client, and determines the appropriate size and amount of each security to be held. Carlson allocates investment opportunities among the Client in a manner that it believes is fair and equitable. Carlson may place orders for more than one Client simultaneously. The proposed allocation of any order placed on behalf of more than one Client is ordinarily determined prior to placing the order. If all such orders are not filled at the same price, then Carlson may cause each account to pay or receive the average of the prices at which the orders were filled for all accounts. If all orders placed cannot be fully executed under prevailing market conditions, then the securities traded may be allocated among the Clients in a fair and equitable manner, taking into account the size of the order placed for each Client account and any other relevant factors. Such aggregation of orders may not always benefit one or more particular Clients with regard to the price or quantity executed.

Item 13 REVIEW OF ACCOUNTS

All investments allocated to the Clients are regularly reviewed by Carlson investment personnel. The principal portfolio managers who make investment decisions on behalf of each of the strategies used by each Client supervise the management of the strategies and investments for which they are responsible on an on-going basis. Carlson's Risk 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 has entered, and may in the future 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. Additionally, Carlson may direct and has directed brokerage transactions to brokers that have referred investors to Carlson and the Funds, as described in Item 12 (Brokerage Practices) above.

Please see Item 10 (Other Financial Industry Activities and Affiliations) and Item 12 (Brokerage Practices) above.

Item 15 CUSTODY

While Carlson does not physically hold the securities and other assets of the Funds, Carlson is deemed to have custody of the Fund's assets, given that Carlson has the authority to obtain such assets by deducting advisory fees from a Fund's account or otherwise withdrawing assets from a Fund's account and that CCGP serves as general partner of the U.S.-domiciled feeder funds.

Investors in the Fund do not receive account statements from any custodians; rather, the Funds are subject to an annual audit and each investor in the Fund receives the applicable Fund's annual financial statements audited by an independent public accounting firm. Investors in the Funds are urged to carefully review such statements.

Carlson does not have custody with respect to the CLOs and the Managed Accounts.

Item 16 INVESTMENT DISCRETION

Carlson has complete discretionary authority to manage the Clients pursuant to the investment advisory agreements with the Clients and endeavors to manage the Clients in a manner consistent with the investment objectives and restrictions of each Client. For more information, please see Item 4 (Advisory Business) above.

Item 17 VOTING CLIENT SECURITIES

As part of its Code, 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 Clients over which it exercises voting discretion in the best interests of its clients and investors.

Carlson has retained ISS Governance Services (“ISS”) who will generally vote all proxies, including votes resulting in share blocking on behalf of Carlson based on ISS’ recommended vote for the Funds. ISS has been granted “Implied Consent” (as defined in the ISS Vote Authorization Registration Agreement) by Carlson. Through Implied Consent, ISS will vote all proxies on behalf of Carlson based on ISS’ recommended vote with the exception of votes involving a proxy in which ISS’ various clients’ interests vary (i.e., instances which ISS deems a “specific client qualification” vote) or where a proxy is required for a special meeting. In these two instances ISS will follow the procedures detailed in its ISS Vote Authorization Registration Agreement with Carlson. Carlson may over-ride any voting decision by ISS or choose to abstain from voting if it determines, at its discretion, that the vote is not in the best interests of investors, Carlson or any investment strategy.

Both Carlson and ISS will maintain copies of proxy statements and records of votes cast by Carlson or ISS, as applicable. Where possible, Carlson may rely on the SEC’s electronic EDGAR system for proxy statements received regarding Client securities. Carlson shall maintain the records described above (other than proxy statements filed on EDGAR or records maintained by ISS) in Carlson’s office for two years. After two years such records shall be retained for an additional three years but may be moved to an “easily accessible” place.

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 Client. As a result, depending on a given Client’s particular circumstances, Carlson may vote securities in one Client differently than it votes those of another Client, 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 Client’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 any 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 is determined to exist, Carlson takes steps to ensure that its voting decision is based on the best interests of the Client 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 Client, upon written request, a copy of the Proxy Policy or information on how it voted proxies for the applicable Client.

Item 18 FINANCIAL INFORMATION

There is no current financial condition that is reasonably likely to impair Carlson’s ability to meet its contractual commitments to any Client.

Item 19 REQUIREMENTS FOR STATE-REGISTERED ADVISERS

Not applicable.