



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 the successor to a Delaware limited partnership formed in 1993, and 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 annual update to Carlson's Form ADV Part 2 (this "Brochure") was in March, 2013. A summary of material changes since the last annual update of this Brochure is as follows:

Item 4 - Carlson has amended Item 4 to update (in more detail) the following information about certain of the master funds it manages:

- The restructuring of Black Diamond Structured Opportunities Offshore Ltd (currently inactive and in the process of dissolution).
- The restructuring and renaming of Black Diamond Structured Opportunities Ltd. to "Black Diamond OC Offshore Fund Ltd."
- The launch of Black Diamond SRI Offshore Ltd.

Carlson has additionally updated Item 4 to disclose the integration of members of one sub-advisory group as Carlson employees and a new branch office location in Florida.

Item 5 - Carlson has amended Item 5 to provide additional detail regarding the fees and expenses it charges the funds and managed accounts for which it serves as investment adviser.

Item 8- Carlson has amended Item 8 to update the language in the "Risk Factors" section.

Item 10 - Carlson has amended Item 10 to update the list of all the Black Diamond Funds® and update the language in the "Conflicts of Interest" section.

Item 17 – Carlson has amended Item 17 to reflect its retention of ISS Governance Services ("ISS") to vote proxies on behalf of 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. Clint D. Carlson and his immediate family members are the principal owners of Carlson, and certain employees also have ownership interests. Carlson and its affiliates have approximately 160 employees, including 90 investment professionals as of March 31, 2013. Carlson’s total regulatory assets under management (“RAUM”) were approximately \$15.9 billion as of March 31, 2013. All assets are managed on a discretionary basis.

Carlson’s principal offices are located in Dallas, TX, with other offices located in New York, NY, Greenwich, CT, Houston, TX and Palm Beach Gardens, FL. Carlson Capital UK LLP (“Carlson UK”), an affiliate of Carlson, maintains an office in London. Carlson UK and a predecessor advisory affiliate have been registered as an investment adviser with the United Kingdom Financial Services Authority (“FSA”) since 2001. Carlson UK acts as a sub-advisor to Carlson. Prior to 2013, Iron Peak Capital Management LLC (“Iron Peak”) acted as a sub-advisor to Carlson with respect to certain of the Funds (as defined below). Effective January 1, 2013, the sub-advisory agreement between Iron Peak and Carlson was terminated and all members and employees of Iron Peak were fully integrated into Carlson as Carlson employees.

Carlson provides discretionary investment advisory services to privately-offered pooled investment vehicles and to managed accounts. Carlson currently manages each of the Black Diamond Funds[®] (collectively, the “Funds”). The names of each of the Funds 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. One of the Funds (described below and within Item 5 (Fees and Compensation) and Item 10 (Other Financial Industry Activities and Affiliations, below) does not follow the master-feeder structure detailed above, but instead pursues its investment strategy directly as a stand-alone fund that is only offered for investment to one asset management company investor.

As noted above, Carlson also provides discretionary investment advisory services to three separately managed accounts (the “Managed Accounts”) pursuant to specific investment guidelines and restrictions as set forth in the investment advisory agreement with the relevant Managed Account.

As described more fully below, Carlson employs multiple strategies across the Funds, including equity relative value, credit relative value, credit directional, event driven, volatility, equity long/short, strategic 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 may use one or more of these strategies to manage each Fund and/or Managed Account (collectively, the “Clients”). 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 investment objective 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. There can be no assurance that the Black Diamond Master Fund will achieve its investment objectives.

Double Black Diamond Offshore Ltd., a Cayman Islands exempted company (the “Double Black Diamond Master Fund”), is a diversified, multi-strategy fund that seeks superior investment returns while preserving capital. The investment objective 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. There can be no assurance that the Double Black Diamond Master Fund will achieve its investment objectives.

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. There can be no assurance that the Relative Value Master Fund will achieve its investment objectives.

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’s 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. There can be no assurance that the Arbitrage Master Fund will achieve its investment objectives.

Black Diamond Thematic Offshore Ltd. is a Cayman Islands exempted company (the “Thematic Master Fund”). The investment objective of the Thematic Master Fund is to maximize absolute returns while limiting exposure and correlation to the equity markets through 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. Carlson has employed a similar strategy within the Black Diamond Master Fund and the Double Black Diamond Master Fund since September 2010. There can be no assurance that the Thematic Master Fund will achieve its investment objectives.

Black Diamond Structured Opportunities Offshore Ltd., a Cayman Islands exempted company, (the “Structured Opportunities Master Fund”), underwent a restructuring effective December 31, 2012. Historically, the Structured Opportunities Master Fund’s investment objective was to seek long term capital appreciation and current income by investing primarily in mortgage-backed securities backed by Alt-A fixed rate or Prime fixed rate amortizing mortgages issued and originated in the United States that, at the time of purchase, traded at a deep discount to their original issue price. As of December 31, 2012, the RAUM of the Structured Opportunities Master Fund was \$447.4M. Effective December 31, 2012, the Black Diamond Master Fund and the Double Black Diamond Master Fund purchased their pro rata holdings at market value in the Structured Opportunities Master Fund and subsequently fully redeemed their shares and received a cash redemption payment from the Structured Opportunities Master Fund. This transaction was finalized on January 4, 2013 and had the effect of reducing the Structured Opportunities Master Fund’s RAUM and net asset value to zero. The Structured Opportunities Master Fund is currently inactive and in the process of dissolution.

Black Diamond Mortgage Opportunity Offshore II Ltd., a Cayman Islands exempted company (the “Mortgage Opportunity II Master Fund”), seeks capital appreciation and current income by investing primarily in mortgage-backed securities backed by Alt-A fixed rate or Prime fixed rate amortizing mortgages issued and originated in the United States that, at the time of purchase, trade at a deep discount to their original issue price. The Mortgage Opportunity II Master Fund may also invest in non-option adjustable rate mortgages with fixed terms of at least seven years and in whole loans. The Mortgage Opportunity II Master Fund may use leverage, generally not to exceed a leverage ratio of 2 to 1 (defined as the ratio of the market value of long positions divided by the Mortgage Opportunity II Master Fund’s net asset value), subject to the number and quality of investment opportunities available, the perceived risk level of the portfolio and available credit. The Mortgage Opportunity II Master Fund may also invest in repurchase agreements, swaps, derivatives and other forms of synthetic leverage. There can be no assurance that the Mortgage Opportunity II Master Fund will achieve its investment objectives. Iron Peak acted as a sub-advisor to Carlson with respect to the Mortgage Opportunity II Master Fund until January 2, 2013 when the sub-advisory agreement between Iron Peak and Carlson was terminated and all members and employees of Iron Peak were fully integrated into Carlson as Carlson employees.

Black Diamond SRI Offshore Ltd, a Cayman Islands exempted company (the “Black Diamond SRI Master Fund”), was launched on February 1, 2013. The Black Diamond SRI Master Fund (together with its feeder funds, the “Fund”) is a relative value arbitrage fund employing a socially responsible, market neutral investment philosophy in the global equity markets. The investment objective of the Black Diamond SRI Master Fund is to produce returns substantially in excess of those derived from risk-free investments, without a substantial increase in overall risk, while at the same time investing in a socially responsible manner. The principal strategy of the SRI Fund is to invest 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. The Black Diamond SRI Master Fund endeavors to make investments following the socially responsible investment criteria prescribed in its offering and is restricted from trading issuers or categories of issuers designated as engaging in certain controversial or “anti-family” activities inconsistent with the core values and teachings of certain faith-based institutions. Carlson has designated ISS Governance Services as the third party screening provider to maintain the list of prohibited issuers (or categories of issuers) in which the Black Diamond SRI Master Fund is restricted from trading.

As stated above, Carlson also advises a Fund which does not follow the master-feeder structure and is a stand-alone Fund. The investment objectives and strategies of that Fund are as follows:

Black Diamond Structured Opportunities Ltd., a Cayman Islands exempted company, underwent a restructuring effective October 1, 2012 and was renamed “Black Diamond OC Offshore Ltd.” (“Black Diamond OC Offshore Fund”). Black Diamond OC Offshore Fund accepts investments solely by one asset management company. The investment objective of Black Diamond OC Offshore Fund is to seek long term capital appreciation by primarily investing in tranches of securitized mortgages backed by Alt-A fixed rate or Prime fixed rate amortizing mortgages issued and originated in the United States that, at the time of purchase, trade at a deep discount to their original issue price. The Black Diamond OC Offshore Fund may use leverage, generally not to exceed a leverage ratio of 2 to 1 (defined as the ratio of the market value of long positions divided by the net asset value), subject to the number and quality of investment opportunities available, the perceived risk level of the portfolio and available credit. The Black Diamond OC Offshore Fund will not be limited to its target leverage ratio. There can be no assurances that the Black Diamond OC Offshore Fund will achieve its investment objectives.

Carlson’s management of each of the Funds or Managed Accounts, and the terms of any investment in a Fund or Managed Account are governed exclusively by the terms of that Fund’s or Managed Account’s organizational documents, offering memorandum (if any), limited partnership agreement (if any), memorandum of association (if any), investment advisory agreement (if any), and subscription agreement (if any). All discussions in this Brochure of the Funds or Managed Accounts, their investments, the strategies Carlson pursues in managing the Funds or Managed Accounts, the fees associated with an investment in the Funds or Managed Accounts, and all other terms of each Fund or Managed Account, are qualified in their entirety by reference to the Funds’ governing documents and the investment advisory agreement of the Managed Account.

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 0.85% to 2.0% of the net asset value of each limited partner’s capital account and each investor’s series of shares or the net asset value of the Fund, 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 payable quarterly in advance. Management Fees charged to the offshore feeder funds are generally charged on a monthly basis, in arrears and prior to the accrual of any Performance Allocation (as described below). 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 days during which such investor was a limited partner in the feeder fund. Management Fees are accrued monthly.

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 in the feeder funds or for other services.

The Managed Accounts: The amount and terms of payment of any fees payable by the Managed Accounts to Carlson vary and are established in one or more advisory agreements with the Managed Accounts.

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. The amount of the Performance Allocation (except with respect to the Black Diamond OC Offshore Fund and the Mortgage Opportunity II Master Fund, as described below) is equal to either 20% or 25% 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). The Performance Allocations are 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 the end of each calendar year, the withdrawal or redemption of a limited partner or shareholder from a feeder fund and/or a transfer of an investment in a feeder fund. 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 serves as the general partner to the onshore feeder funds and as a special shareholder of each offshore intermediate fund (or of the master fund if there is no offshore intermediate fund). In the case of the U.S.-domiciled feeder funds, the Performance Allocation is calculated and applied separately for each limited partner (and with respect to each limited partnership interest) and in the case of the offshore feeder funds, the Performance Allocation is calculated and applied separately for each sub-series of each series of shares issued by such feeder fund.

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 unrecouped net losses be made up before a full Performance Allocation is credited. Certain series of limited partnership interests and sub-series of shares of the feeder funds are subject to a "modified high water mark" which provides that the Performance Allocation payable to CCGP will be calculated at one-half of the percentage otherwise applicable (e.g., 10% instead of 20%) for each calendar year in which there are net losses allocated to such limited partner and/or each sub-series of shares, as applicable, until an amount of net profit (net of any accrued Performance Allocation) equal to 200% of the largest amount of net losses as of the end of any prior calendar year has been allocated to such limited partner and/or each sub-series of shares, as applicable. As and to the extent that an amount of net profit (net of any accrued Performance Allocation) equal to more than 200% of the largest amount of net losses as of the end of any prior calendar year has been allocated to such limited partner and/or each sub-series of shares, as applicable, then the Performance Allocation will be calculated at the normal rate with respect to any such excess. In the case of a partial withdrawal, partial redemption or transfer, the amount of net losses that must be recouped will be reduced in proportion to the amount withdrawn, redeemed or transferred, as applicable.

With respect to the Mortgage Opportunity II Master Fund, the Performance Allocation is equal to 15% of each limited partner's or shareholder's share of the net profits (including realized and unrealized gains) of the applicable feeder fund, if any (after taking into account expenses of the feeder fund, including any Management Fees) and is subject to a high-water mark or loss carry-forward as described above. In addition, the Performance Allocation is subject to a "hurdle," pursuant to which no Performance Allocation is made unless each limited partner (on a per interest basis) and each shareholder in the applicable feeder fund earns a return equal to at least an annual rate of return equal to 5% of the balance of such limited partner's capital account or each shareholder's shares, as applicable, as of the beginning of such year (as adjusted for additions or withdrawals/redemptions during such year, and prorated for periods of less than a year). The annual rate of return a limited partner and/or a shareholder must receive is not compounded. If the net profit allocable to a limited partner or shareholder exceeds the hurdle, then any excess will be allocated to CCGP until it has received 15% of the total net profits otherwise allocable to such limited partner or shareholder.

With respect to the Black Diamond OC Offshore Fund, no incentive based fee or allocation is charged.

The amount of 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. CCGP 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 or for other services.

The Managed Accounts: The amount and terms of payment of any fees payable by the Managed Accounts vary and are established in one or more advisory agreements with the Managed Accounts.

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. One or more Managed Account may also be required to pay withdrawal, early termination or other similar fees under certain circumstances and as established in one or more advisory agreements with such Managed Accounts.

Expenses

Carlson and/or its affiliates pay all of their own operating and overhead costs. Each Client pays or reimburses Carlson and its affiliates for all other costs and expenses associated with such Client's operations, including the following:

- expenses related to investment transactions and positions for the Clients' accounts, including brokerage commissions, clearing fees and custody charges, interest and commitment fees on loans and debit balances, borrowing charges on securities sold short, costs of any outside appraisers, pricing services, accountants, attorneys or other experts or consultants engaged by Carlson or affiliates, reasonable investment-related travel expenses, expenses in connection with proposed transactions (including transactions that fail to close), costs of research and data services, and any legal fees and costs (including settlement costs) arising in connection with any litigation or regulatory investigation instituted against the Client, Carlson or its affiliates in connection with the affairs of the Client;
- any withholding or transfer taxes imposed on the Client or any of its limited partners, shareholders or other beneficial owners as a result of its or their earnings, investments or withdrawals (which amounts will be assessed, where applicable to particular limited partners, shareholders or other beneficial owners, directly against such limited partners, shareholders or other beneficial owners);
- government charges and professional fees and expenses incurred in connection with the preparation of the Client's governing documents and the preparation of the Client's agreements with third parties;
- costs of the audit of the Client's annual financial statements and the preparation of its tax returns, the fees and expenses of legal counsel in connection with advice relating to the Client's legal affairs, costs of preparing and mailing reports, costs of preparing required

regulatory filings (including Form PF), sub-advisory fees, insurance costs, and other ordinary operating and out-of-pocket expenses of the Client; and

- a proportionate share of the operating expenses of the Funds.

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.

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 10% 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 other than the Black Diamond OC Offshore Fund. 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. 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 and the Managed Accounts. The Managed Accounts generally are owned by pooled investment vehicles and large institutional investors. 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 and “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940. Ownership of a Managed Account is similarly limited to investors who are both “accredited investors” and “qualified purchasers.” 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 waived under certain circumstances at the sole discretion of Carlson.

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.

The 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 the applicable Funds and as described in Item 4 (Advisory Business) above, Carlson does not attempt to maintain a market neutral portfolio for all of the Funds 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 seeks to identify securities that are mispriced relative to related securities, groups of securities, or the overall market. Positions are ordinarily established in a hedged construct in an effort to isolate the discrepancy in value and minimize market risk. Investments may represent a short-term or long-term fundamental view on the relative performance of a security. Equity Relative Value seeks to exploit the long market bias of most investors. Investors typically think in terms of buying securities that will appreciate, not in terms of capturing the difference in the performance of two or more securities.

Credit Relative Value Strategies

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

Credit Directional Strategies

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

Event Driven Strategies

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

Volatility Strategies

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

Equity Long/Short Strategies

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

Systematic Trading Strategies

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

Strategic and Other

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

Carlson also has made, and may in the future make further investments in structured opportunities. For example, Carlson makes investments in mortgage-backed securities backed by Alt-A Fixed Rate or Prime Fixed Rate amortizing mortgages issued and originated in the United States that, at the time of purchase, trade at a deep discount to their original issue price.

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

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 financial or other instruments in which the Clients may invest, on the origin or nature of the issue of securities or instruments held by the Clients, or on the currency denomination of such securities or 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. Only during periods when Carlson believes that there are high quality opportunities, or that the overall risk level of the portfolio is low, does Carlson expect to make full use of available leverage. The Funds' master funds and feeder funds may borrow from or lend to each other on market terms.

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 generally a low level of leverage in such portfolios.

Carlson conducts a thorough process to arrive at an understanding of the various risks to each position. Carlson will examine the 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:

Past Performance Not Indicative

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 Funds or Managed Accounts, and should evaluate the merits and risks of an investment in the Funds or Managed Accounts 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 each Fund's Private Placement Memorandum and the governing documents of the Managed Accounts carefully in their entirety and consult with their professional advisers before making an application for an investment in the Funds or Managed Accounts.

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.

Investment and Trading Risks in General

All securities investments risk loss of capital. Although Carlson generally employs 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 do not provide any assurance that the Clients will not be exposed to risks of significant investment losses.

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 the General Partner of the Funds. Accordingly, investors in the Funds may be able to dispose of their interests only by means of withdrawals at the times, 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.

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 establishes other positions designed to gain from those same developments, thus 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 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

Borrowing funds for investment purposes entails significant risks. Borrowing for investment purposes, or leveraging, tends to magnify the gains or losses from investment activities and volatility, since the value of investments purchased with the proceeds of such borrowings may increase or decrease whereas the liabilities for such borrowings remain fixed. Borrowing also may cause 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.

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 therefore) 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.

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 Securities

The Clients may invest in securities, loans, private claims and other 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.

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, credit derivatives, over-the-counter 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 securities. 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 an underlying asset (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 LIBOR or another 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 securities because of the additional complexity and potential for leverage. 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 securities to which their values are related. Swaps and other forms of derivative instruments may not be guaranteed by an exchange or clearing house or regulated by any U.S. or foreign governmental authority. It may not be 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.

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 position, 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. 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 "over the counter" 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. Foreign 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.

The ability of a Client to transact in securities 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 for a period of time. One or more of the Clients and/or Carlson may receive non-public information regarding an issuer, which would restrict the Clients' ability to trade in the securities of the issuer. These and other regulatory requirements may cause the Clients to be unable to transact in securities of an issuer when doing so would otherwise be in their best interests.

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 may result in substantial losses to the investor. 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 ordinarily purchase or sell

commodity futures contracts only 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.

Foreign Investments

The Clients may invest in foreign or domestic securities denominated in foreign 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 foreign governments, U.S. and foreign 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 foreign nations.

There may be less publicly available information about certain foreign companies than would be the case for comparable companies in the United States, and certain foreign companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies. 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 foreign 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 international investment activities. Foreign 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 foreign laws to foreign 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 foreign jurisdictions.

Non-U.S. Dollar Denominated Investments

The Clients may invest in debt and equity securities denominated in currencies other than the U.S. dollar and in other financial instruments, the price of which is determined with reference to currencies other than the U.S. dollar. Clients, however, value their respective securities and other assets in U.S. dollars. To the extent unhedged, 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 securities 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 securities. 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 speculative or 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 affected 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.

Mortgage Backed Securities

The Clients may invest in structured finance products such as collateralized mortgage obligations, collateralized debt obligations, collateralized loan obligations, and other mortgage backed and asset backed securities ("MBS") and related derivatives. Investments in MBS and other structured financial products have characteristics that generally differ from traditional debt securities. Among the major differences are that interest and principal

payments may be made more frequently, often monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time. MBS may be adversely affected by changes in prepayments in any interest rate environment, leading to outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments, or underperformance relative to hedges that the Carlson may have constructed for these investments. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, but changes in prepayment rates are difficult to predict. Prepayment rates also may be affected by conditions in the housing and financial markets, general economic conditions and the relative interest rates on fixed-rate and adjustable-rate mortgage loans.

The Clients are subject to credit risk with respect to its investments in MBS and other structured financial products, i.e., the risk that an issuer of securities (or the obligors of the underlying assets of such security) will be unable to pay principal and interest when due, or that the value of the security will suffer because investors believe the issuer or underlying obligors are less able to pay. In recent years, the judgments of the rating agencies with respect to MBS have been called into question by many market participants. Furthermore, the Clients' investments in MBS may not be rated by any rating agency or may be below investment grade. A default or credit impairment of any of its investments could result in a total loss of the investment.

MBS are structured securities that generally are limited or non-recourse obligations payable solely from underlying assets or collateral securities or the proceeds thereof. Consequently, holders of structured securities must rely solely on distributions on the underlying assets or collateral securities or proceeds thereof for payment in respect of the structured securities. The underlying assets may be subject to, among other things, credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks, and may fluctuate in value with the financial conditions of the underlying obligors. In the event that obligors on the underlying assets default on their obligations, or distributions on the underlying assets or collateral securities are insufficient to make payments in respect of the MBS, no other assets may be available for the payment of the deficiency. Further, holders of structured securities are generally unable to control the legal remedies that might be available to a direct holder of underlying assets. There is no guarantee that liquidation of underlying assets and collateral securities will be sufficient to repay investors for their investment in such structured securities.

MBS and other structured securities may also involve risks different from those of the assets underlying such structured securities. The failure by a servicer, sponsor or manager of a structured security to perform adequate credit review or scrutiny of underlying assets or collateral securities or to otherwise fulfill its obligations with respect to a structured security may lead to the liquidation of, or default on, such structured security. Such failures and defaults may have a negative impact on the return of the structured security and the performance of the Clients.

The regulation of the market for MBS has undergone substantial change in recent years, and may be subject to further changes. As a result of the severe depreciation in the value of MBS and dramatic increase in the rate of defaults on mortgages underlying MBS in recent years, there is an increased likelihood of legislative or regulatory changes that could adversely

affect the value of outstanding MBS. Recent proposals have included debt relief or forgiveness programs, adjustments to the terms of existing mortgage loans, and limits on foreclosures on mortgage loans. It is unknown what future legislative or regulatory changes will occur or what their impact on the market for MBS or the Client's investments in MBS may be.

Socially Responsible Investing

Although Carlson has broad discretionary power to decide which investments the Clients will make, such discretionary power is limited with respect to the Black Diamond SRI Master Fund to the extent that the Black Diamond SRI Master Fund may not invest in certain issuers or categories of issuers designated by the investors as not meeting socially responsible criteria and as designated in the investment management agreements. Carlson may, with the consent of the initial investor in the Fund, add or remove individual issuers or categories of issuers, subject to certain conditions as described in the offering memoranda and related documents. Carlson will rely on a ISS to establish a list of prohibited issuers not undertake to research or otherwise investigate the operations of any issuer in order to ascertain whether such issuer is engaged in a particular prohibited activity or is owned by a company that is engaged in a particular prohibited activity. In addition, any proxies related to direct investments in public securities being voted on behalf of the Black Diamond SRI Master Fund will be cast according to the Catholic US and Global Proxy Voting Guidelines issued by ISS for the Black Diamond SRI Master Fund, and Carlson will have no discretion to alter or over-ride any such votes even where it determines that an alteration or variation would be in the best interest of the Black Diamond SRI Master Fund or its investors. An investment in other Clients managed by Carlson, using a similar strategy, but that is not restricted by the Black Diamond SRI Master Fund's socially responsible investment criteria, may be more profitable than an investment in the Black Diamond SRI Master Fund.

Use of Models

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. 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.

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 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.

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 and Custody Risks

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. Many of the markets in which the Clients may trade are “over-the-counter” or “interdealer” markets. Clients could suffer losses if there were a default or bankruptcy by a bank or brokerage firm that holds securities or other assets of the Clients. A substantial portion of the securities and other assets of the Clients may be deposited with banks or brokers as collateral to secure borrowings and other obligations of the Clients, and accordingly will not be entitled to the same protection in the event of the insolvency of the bank or brokerage firm as assets held in the name of a Client by a bank or brokerage firm. While care is taken in selecting reputable financial institutions to trade with and hold custody of the assets of the Clients, any such financial institutions could become insolvent. In the event of the failure of a brokerage firm holding assets of the Clients, the Clients might not have the right to recover all securities held by the broker, and might under certain circumstances instead have only a claim (that may be unsecured) against the broker for the net value of the assets of each Client held by the broker.

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 other 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 Adviser's Act of 1940, the Funds are not registered under the Investment Company Act of 1940, as amended (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

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.

Recent Changes in Regulation

Legal, tax and regulatory developments which have a material impact on the Clients could occur at any time. Securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, CFTC and other U.S. and non-U.S. regulators, self-regulatory organizations and exchanges. The U.S. Congress and European Union both recently enacted broad financial legislation affecting the operations of banks, private funds and other financial institutions. Many provisions of these legislations have been and continue to be implemented through rulemaking. The impact of such regulation on certain trading strategies and operations is impossible to predict and may be adverse to the Clients. The regulatory environment for hedge funds, swaps, and short selling activities, in particular, is evolving, and changes in such regulation may adversely affect the ability of the Clients to pursue certain investment strategies, the availability of leverage and financing, and the value of certain investments.

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 may be challenged by the IRS or other tax authorities. Certain positions taken by the Funds may depend on legal conclusions not yet resolved by the relevant tax authorities or courts. 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 are 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 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. Prospective investors are urged to review carefully the section entitled "Taxation" in the Funds' offering memoranda and to consult their own tax advisors about the tax-related risks inherent in an investment in the Funds.

Accounting for Uncertainty in Income Taxes

ASC 740, "Income Taxes" (in part formerly known as "FIN 48") provides guidance on the recognition of uncertain tax positions. ASC 740 prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in an entity's financial statements. It also provides guidance on recognition, measurement, classification and interest and penalties with respect to tax positions. ASC 740 could have an adverse effect on the Funds' net asset value, including reducing the net asset value to reflect reserves for income taxes that may be payable by the Funds in the future and increasing the net asset value to reflect the reversal of any such reserves. Investors that redeem while the net asset value reflects such reserves will receive withdrawal proceeds reduced by such reserves and will not benefit from any reversal (and the corresponding Net Asset Value increase) subsequent to such withdrawal, while investors in the Funds who subscribed after such reserve was established will have the Net Asset Value of their Interests increased by such a reversal.

FATCA

Sections 1471 through 1474 of the Code (referred to as "FATCA") generally will impose a withholding tax of 30% on certain gross amounts not effectively connected with a U.S. trade or business paid to certain non-U.S. entities such as the Funds, unless various information reporting requirements are satisfied. Amounts subject to withholding under these rules generally include gross U.S.-source dividend and interest income paid on or after January 1, 2014, gross proceeds from the sale of property that produces U.S.-source dividend or interest income paid on or after January 1, 2017 and certain other payments made by "participating foreign financial institutions" to "recalcitrant account holders" on or after January 1, 2017 (so called "foreign pass thru payments"). To prevent the Funds from being subject to withholding under FATCA, the Funds will be required to comply with certain information reporting and disclosure requirements which may include, among other things, entering into an agreement with the IRS and requesting additional information from its investors that may be disclosed to the IRS. Carlson cannot guarantee that Funds will be able to satisfy such requirements. Prospective investors are encouraged to consult their own advisors regarding the possible application of FATCA and its impact on their investment in the Funds.

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 recommendations from Carlson. The Performance Allocation was set without negotiation with any third party.

Credit Enhancement

Some MBS may contain certain credit enhancement features intended to enhance the likelihood that holders of such securities will receive regular payments of interest and principal. If delinquencies or defaults occur on the mortgage loans underlying such MBS, neither the related servicers nor any other entities will advance scheduled monthly payments of interest and principal on delinquent or defaulted mortgage loans if such advances are not likely to be recovered within those transactions. There can be no assurance that the credit enhancement, if any, applicable to MBS will adequately cover any shortfalls in cash available to make payments on such MBS as a result of such delinquencies or defaults.

The amount, type and nature of insurance policies, subordination, letters of credit and other credit support, if any, with respect to certain MBS, are based upon actuarial analysis and, therefore, are inherently limited in their ability to predict events that will take place in the future. There can also be no assurance that data derived from a large pool of mortgage loans accurately predicts the delinquency, foreclosure or loss experience of any particular pool of loans.

Risks of Diminished Liquidity

Hedge funds and other investors engaged in strategies similar to 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.

Concentration

The Clients are not subject to any material concentration or diversification restrictions and may hold a limited number of concentrated investment positions.

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. Additional details regarding the settlement can be found in Carlson's Form ADV Part I, which can be accessed through the Securities and Exchange Commission website at <http://www.sec.gov>.

Item 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

General Partner and Special Shareholder Affiliates

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 FSA 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.

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.

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 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 OC Offshore Fund Ltd.
Black Diamond Structured Opportunities Offshore Ltd. (inactive)
Black Diamond Mortgage Opportunity II, L.P.
Black Diamond Mortgage Opportunity II Ltd. (inactive)
Black Diamond Mortgage Opportunity Offshore II Ltd.
Black Diamond SRI Offshore Ltd.
Black Diamond SRI Ltd.
Black Diamond SRI Intermediate Ltd.

Certain Other Affiliations

Parallel Resource Partners, LLC (“Parallel”), a Delaware limited liability company, which 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 Energy Recapitalization and Restructuring Fund, L.P., a Delaware limited partnership, Energy Recapitalization and Restructuring FI Fund, L.P., a Cayman Islands limited partnership, and Energy Recapitalization and Restructuring FI-II Fund, L.P., a Cayman Islands limited partnership (together, 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. Parallel held its final closing for the ERR Funds on February 13, 2012. Parallel is prohibited from accepting any new investors into the ERR Funds pursuant to the ERR Funds’ organizational documents.

Parallel is owned 50% by Bluescape Energy Partners, LLC (“Bluescape”) 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. Bluescape is a wholly owned subsidiary of Bluescape Resources Company LLC (“Bluescape Resources”), which is in turn indirectly owned more than 95% by C. John Wilder, Jr. and his immediate family members. Bluescape Resources is a private independent oil and gas Delaware limited liability company formed in late 2007. CEP I was formed as a Delaware limited liability company in February 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) who are also employees of Carlson and 50% by affiliates of Carlson.

CEP I currently employs four investment professionals who are also employed by Carlson and who will devote a portion of their business time to managing investments on behalf of the ERR Funds, as well as the Clients managed by Carlson, however, a substantial portion of these individuals' business time will be devoted exclusively to managing the investments of the ERR Funds. Shahla F. Ali (the "CCO") serves as the Chief Compliance Officer for both Carlson and Parallel and, as a result, the CCO's obligations with respect to Carlson and the Funds could conflict with the CCO's responsibilities to Parallel and the ERR Funds. The CCO will spend the majority of her business time in Carlson's offices but will, from time to time, be present in Parallel's offices.

In addition, Carlson provides back office support to Parallel through services agreements with annual renewal provisions. Carlson utilizes its support staff to provide back office services to Parallel in the functional areas of investor relations, investment operations, accounting, tax, legal, and compliance.

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

Conflicts of Interest

Other Clients and Services

Carlson and its affiliates may from time to time 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 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 other funds and/or accounts, 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, the Clients, even though their investment objectives may be the same or similar. Such other funds and/or accounts may be subject to different fees and expenses, and Carlson or its affiliates may own interests in some of such other funds and/or accounts. 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 may, from time to time, buy or sell for one Client the same securities as those traded by another Client. Carlson will 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 securities 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 orders of the Clients. Such aggregation of orders may not always benefit one or more particular Clients with regard to the price or quantity executed.

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 Black Diamond Ltd., Double Black Diamond Ltd. and Black Diamond Arbitrage Ltd. (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.

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. 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.

Brokerage and Other Arrangements

Carlson and/or its affiliates may receive benefits from brokers and counterparties selected to execute transactions on behalf of the Clients. In selecting brokers or dealers to effect transactions, Carlson does not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Carlson may cause commissions to be paid to a broker or dealer that furnishes or pays for research or other services at a higher price than might be charged by another broker or dealer for effecting the same transaction. Research services obtained by the use of commissions arising from portfolio transactions may be used by Carlson and/or its affiliates for other investment activities, and, therefore, one or more particular Clients may not, in any particular instance, be the direct or indirect beneficiary of the research services provided. Subject to compliance with applicable law and the obligation to seek best execution, Carlson may also use a broker-dealer that has referred investors or clients to Carlson to execute or clear transactions or as counterparty to transactions for the Clients. Please see Item 4 (Advisory Business) above, Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss) above, Item 11 (Code of Ethics, Participation in Client Transactions and Personal Trading) below, and Item 12 (Brokerage Practices) below.

Side Agreements

Carlson has entered and may enter into side agreements with specific investors in the Funds and in providing for different fees, redemption rights, access to information about the Funds' investments, or other matters relating to an investment in the Funds.

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") designed to, among other things, alleviate possible conflicts of interest, prevent the misuse of material non-public information, ensure the propriety of its employees' personal trading activity, and instill a culture of compliance with the law and the highest standards of business conduct.

Each employee 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.

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.

The Code of Ethics 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.

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.

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 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 Policy requires pre-approval of all transactions in most securities and derivatives (with the exception of certain “Exempt Securities,” as described below) by employees for their personal 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), commodities, stand-alone MLPs, 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 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. Execution traders must limit their personal trading to Exempt Securities. The Personal Trading Policy includes a required 30-day holding period for any employee securities holdings other than Exempt Securities unless an investment has decreased in value by 10% within the 30-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 Funds. Carlson does not generally invest directly on its own behalf in investments outside of the Funds. To the extent that the investment by Carlson and its affiliates and their respective principals and employees in any of the Funds or Managed Accounts may cause such Fund or Managed Account to be considered a proprietary account, Carlson has adopted procedures to ensure that transactions between such proprietary account and any other Client comply with the requirements of the Advisers Act including, where necessary, obtaining the consent of one or both parties to the transaction, including the directors of a Fund or authorized signatory on behalf of the Managed Account.

Carlson may engage in transactions between two or more 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 a 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.

Item 12 BROKERAGE PRACTICES

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

Carlson may cause a higher commission to be paid to a broker-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.

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

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

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.

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 Management Committee and Investment Committee oversee specific aspects of the investment process including capital allocation, target leverage and certain hedging decisions.

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

Item 14 CLIENT REFERRALS AND OTHER COMPENSATION

Carlson may enter into agreements pursuant to which it compensates unaffiliated third parties for referrals of investors in Funds. In general, third party solicitors may receive a portion of the fees paid by such Funds to Carlson attributable to capital committed by such investors. Investors solicited by such third parties will not be subject to any type of an increased fee in connection with such solicitation. 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

As noted in Item 13 (Review of Accounts) above, investors in the Funds receive 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.

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 all Funds with the exception of the Black Diamond SRI Master Fund. Any proxies related to direct investments in public securities being voted on behalf of the Black Diamond SRI Master Fund will be cast by ISS according to the Catholic US and Global Proxy Voting Guidelines issued by ISS.

For all of the Funds, except the Black Diamond SRI Master Fund, 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. For all Funds, except the Black Diamond SRI Master Fund, 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. For votes cast on behalf of the Black Diamond SRI Master Fund, Carlson has no discretion to alter or over-ride the votes recommended by ISS pursuant to the Catholic US and Global Proxy Voting guidelines issued by the ISS.

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.