

Carlson Fixed Income Fund Strategy Narrative

Investment Summary

The Carlson Fixed Income Fund is a long-only investment grade fixed income fund benchmarked against the Bloomberg Intermediate Government Credit Index. Students focus on identifying good quality opportunities in the investment grade universe using an active, buy-and-hold strategy.

Investment Philosophy

The Carlson Fixed Income Fund's strategy is to focus on opportunities in the market that are persistent and repeatable, with an emphasis on downside protection and risk management. We base our investment decisions on analysis of issuer and market fundamental, valuation and technical factors. We employ both bottom up and top-down approaches when looking to add credits to our portfolio, focusing initially on industries that we feel provide the best value to the fund and then finding individual credits within that industry with stable to improving credit quality.

The CFIF does not take significant risk positions with respect to duration, since it does not believe there exists a good methodology to reliably forecast the direction of interest rates. The CFIF will take exposure to the shape of the yield curve because these positions add significantly less risk. Expectations for curve shape are based on an assessment of the economic cycle; cash position is considered to be an active expression of yield curve exposure, not an un-invested asset.

The CFIF believes that investment grade credit delivers consistent, reliable excess return over a full market cycle relative to the benchmark, and will generally be overweight credit to take advantage of this. The size of the overweight position will vary depending on valuations and opportunities available in the market.

ESG

The Carlson Funds Enterprise is a signatory to PRI, and as such, has committed to including environmental, social, and governance (ESG) factors into its investment process. We believe that ESG factors impact a company's culture and performance results over the long-term, and that an increased focus on material ESG issues can allow management to capture new revenue opportunities and uncover latent risk. In this way, we believe that a management team focused on ESG can enhance business Enterprise Value. CGF students seek to identify material ESG factors for all companies under review, and quantify the impact that those exposures might have. ESG is not used as a screening process, but is integrated into bottom up, fundamental analysis.

Research & Screening

CFIF students are divided into 5 industry teams: Consumer, Industrial, Financials, TMT (technology, media, and telecom), and Energy / Utilities. These teams are responsible for monitoring all approved and/or held companies in their sectors, as well as for identifying new opportunities. We will focus on fundamental analysis in selecting investment opportunities, but will limit the universe of companies to research based in part on liquidity expected for each security. We will have a preference for larger, more liquid issues.

Through our bottom up analysis, we will evaluate three basic components for identifying high-quality businesses to include in our portfolio:

- 1) Strong Business Franchises: companies must have competitive strength in their primary markets, with established brand names, dominant market share, pricing power, recurring revenue stream, free cash flow, and high ROIC.
- 2) Favorable Long-term Prospects: growth must be relatively predictable and sustainable; we will favor companies with long product life cycles, enduring competitive advantages, and favorable demographic trends.
- 3) Strong Management: we will focus on the extent to which management is reliable, accessible, and makes what we believe to be strong capital allocation decisions.

These three components will be used to craft the Investment Thesis supporting the recommendation to purchase a company. The Investment Thesis will identify key drivers which we expect to support growth and profitability.

Buy/Sell Discipline

- 1) We will only purchase companies which we believe have a stable or improving credit profile. Valuation is a consideration, but we expect that most securities will be purchased at or close to fair value.
- 2) We will focus on those companies that we believe provide the best combination of carry and roll in the near term, as we believe these are more reliable drivers of total return over time.
- 3) Positions may be added from the approved list as long as the company has been actively followed and reviewed for the previous 12 months.

Positions will be sold...

- 1) ...if we find the Investment Thesis is no longer valid.
- 2) ...as part of a relative value swap, either within or across sectors.
- 3) ...if we believe the credit profile is deteriorating.

Portfolio Construction & Risk Control

Strict adherence to Investment Philosophy and Process, Investment Policy limitations, along with adequate diversification (both by issuer and by industry), will be the primary tools for managing portfolio level risk. Monitoring company developments to ensure they are consistent with the stated investment thesis will be a critical component of risk management.