Carlson Growth Fund
Strategy Narrative

Investment Summary
The CGF Small/Mid Growth strategy is a long-only, fully-invested U.S. equity portfolio. Students focus on identifying high-quality companies with strong fundamentals and an identifiable catalyst for future growth.

Investment Philosophy
We believe that bottom-up fundamental analysis forms the basis for all assessments of company valuation, and that a solid understanding of the business, its markets, competitive landscape, and management are the most critical elements in identifying investment opportunities needed for successful portfolio management. We also acknowledge the difficulty of finding systematic biases in fundamental research which will allow us to consistently achieve outperformance relative to our benchmark over time. Within the Growth universe, we will focus our efforts on identifying higher quality companies based on our assessment of management, visibility of earnings, consistency of ROIC, and identification of specific catalysts for performance to drive our investment style toward lower volatility opportunities within the Russell 2500 Growth universe. We expect lower volatility to be the key factor in alpha generation over time.

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 Process
The CGF students are divided into 5 industry teams: Consumer products & services; Industrials; Technology; Healthcare; and Financial Services. These teams will be responsible for monitoring all approved and/or held companies in their sector, as well as for identification of new opportunities. We will focus on fundamental analysis in selecting investment opportunities; quantitative screens will be used to narrow the opportunity set within each sector, using metrics for identifying high quality growth companies (as outlined below). We will work to develop an understanding of attractive sub-sectors within these 5 high level industry groups, and focus our efforts on strong businesses within those industries.

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) Valuation: we will focus on each company's current price compared to both its historical trading range, and its peer group / market relative assessment. We will also develop a range of valuations based on a discounted cash flow analysis, developed from different fundamental scenarios.
2) Preliminary analysis which suggests a company satisfies all of the basic components identified above will be sufficient for taking a position of 1% or less. In order to increase the position above that level, a full valuation model and written report must be presented to the CGF Mentors for approval.
3) Positions may be increased only with Investment Committee approval. Increases in position size will generally be incremental, based on relative value ranges. Since the focus is on identifying high-quality, long-term positions, holding periods will generally be 3-4 years.

Positions will be sold and removed from the approved list if the Investment Thesis no longer holds up. Examples of this include the following circumstances:

- If a specific catalyst has failed to develop as expected;
- If there has been an acquisition or other activity which increases the risk profile of the business;
- There has been a significant shift in the financial profile of the business which increases risk.

Positions will be sold or reduced if:

- The company is trading above its "best case" scenario;
- The positions exceeds 5% of the market value of the portfolio.

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.

We will also monitor portfolio level metrics to determine if we are constructing a portfolio with lower volatility, higher quality companies. We will utilize portfolio optimization techniques as needed to minimize expected volatility.