CARLSON CAPITAL MANAGEMENT

Quarterly NEWSLETTER

INVESTMENT INSIGHT

ADAM HOFFMANN, CFP®, DIRECTOR OF INVESTMENTS & RESEARCH

The adoption, delaying, and reconsidering of the Department of Labor's Fiduciary Rule has been a recent hot topic in the financial services industry. Much discussion and controversy has been swirling about whether the Rule would be adopted in its original form, modified in some way, or completely scrapped.

As most of you know, CCM is firmly grounded in the fiduciary standard of care. If you missed Greg Carlson's recent article on this topic, I encourage you to visit our website and read, "What the Fiduciary Rule and Telling the Truth Have in Common – and Why Both are So Freeing." *carlsoncap.com/articles*

Because we're never ones to shy away from an equation or two, I have begun to think about the fiduciary standard through the pillars of our long standing "CCM Experience":

Experience + Expertise + Care = Fiduciary

Like a three-legged stool, if you take away one of the pieces from the left side of the equation you are left with something incomplete—and less than what should be considered a true fiduciary. There are many money managers and brokers who have strong experience and are experts at what they do. However, without the care component driving them to match the right solution with what's *best* for each client—instead having only to provide a solution that is *suitable*—there is something fundamentally missing.

... sometimes following a true fiduciary standard requires more than just accepting what's currently available.

When applying the fiduciary standard of care specifically to portfolio management, there are some fiduciary actions that are seen and experienced, while others are not. The portfolio that each CCM client is invested in has been tailored specifically for their risk tolerance, need for return, and many other specific factors that may only apply to them (such as unique investments only available through their employer's retirement plans).

Because much of what happens with regard to our due diligence processes happens behind the scenes, I wanted to take the opportunity this quarter to highlight one of our most recent endeavors—and the exciting outcome.

One of the main fiduciary responsibilities that our investment team has is to find the best available funds to include in our client portfolios. Unfortunately, sometimes

Continued on page 2

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Integrated Wealth Management Since 1987 the marketplace doesn't have what we'd consider "the best" funds available to meet our clients' needs. Sometimes there are gaps…and sometimes following a true fiduciary standard requires more than just accepting what's currently available.

For example, for our clients who reside in Minnesota, we've been searching for a suitable mutual fund through which they could access a low-cost, diversified portfolio of Minnesota municipal bonds (similar to options available in states such as New York or California). Unfortunately, each time we analyzed the available investment options for these types of funds, we weren't satisfied with what we found. Unlike most asset classes that we review for inclusion in our client portfolios, there are relatively few funds that manage portfolios which allow Minnesota residents to achieve the double-tax free benefit of in-state bond ownership. When we applied our preliminary filtering criteria to this limited universe of funds, nothing met our standards in the areas of cost, diversification, and style consistency.

With so few firms managing funds in this space, paired with the fact that competition through new funds has historically been very limited (there has only been one new fund, share classes aside, launched in the Minnesota municipal bond space in the past 20 years)[1], we decided to begin conversations with fund companies to find or create a solution that would meet or exceed our criteria—all with the goal of finding the best solution for our clients. Because we are fully independent, we opened up these conversations to both long-standing partners and to companies we have yet to work with.

The dialogue with firms about a new option ultimately stretched over several years and honestly, began to result in our assumption that a better solution would not be found. Often it ended up that costs would be too high to create a new option, or a strategy would be proposed that fell outside of our investment philosophy, or sometimes even outside of our goals and values.

The conversation with Dimensional Fund Advisors was one of the first we had. Dimensional quickly understood what we were trying to accomplish, and expressed a desire to help us provide a strong solution. This was encouraging to us because with Dimensional, we knew we didn't have to worry about any misalignment of investment philosophies—that is, our goals and values regarding our clients are the same. That said, there are numerous complexities to creating a new fund such as this and it wasn't as simple as just saying yes.

One of the primary criteria we had for the fund was cost. For context, in many mutual funds on the market, there exists a plethora of different share classes with different fee structures, designed to compensate brokers. In our research we had found this to be the case in the Minnesota municipal bond arena, so fund cost was very important to us.

Further, when it came to our standards for diversification and consistency, we wanted a portfolio of quality bonds that would be managed in a disciplined and consistent manner.

And so, after several years of discussion with Dimensional, involving many people from our stellar Regional Director, to the head of fixed income trading, to the CIO and CEO, we're happy to share that later this month, a new Minnesota municipal bond portfolio is being launched by Dimensional Fund Advisors LP.

The fund is expected to launch with an expense ratio of 0.31%[2] which, based on our research, is approximately 37% less than the expense ratio for the lowest cost Minnesota municipal bond fund available as of July 3, 2017. And when we compare the expense ratio of the fund to other Minnesota municipal bond funds available (also as of July 3) our research shows that the fund's expense ratio is approximately 70% less than the average expense ratio of funds in this universe.[3]

For years we've been searching for a suitable mutual fund through which our clients could access a low-cost, diversified portfolio of Minnesota municipal bonds…we're happy to share that later this month, a new Minnesota municipal bond portfolio is being launched by Dimensional.

As I said earlier, a core tenet of the fiduciary standard is ***matching the right solution with what is best for each individual client***. Because the value of municipal bonds in a portfolio increase based on a household's taxable income in a given year, this strategy will not be utilized in all of our clients' portfolios. Our team of advisors, tax experts and investment specialists will be working through each individual client's portfolio to determine if they would benefit from the new fund.

This is a really exciting development for us. While it was a behind-the-scenes effort, I wanted to share an example of how the fiduciary standard can come to life—and illustrate how you can count on CCM, and our partners, to work very hard to do what is in your best interest.

[1]Source: Morningstar Direct. Based on inception dates for 'Oldest Share Class' for mutual funds with >80% holdings in Minnesota municipal bonds.
[2]The expense ratio is based on anticipated fees and expenses the first full fiscal year.
[3]Source: Morningstar Direct. Based on mutual funds with >80% holdings in Minnesota municipal bonds as of 7/3/2017.

The information about the Minnesota Municipal Fund contained in this article is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This article is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

TAX CONSIDERATIONS

AN UPDATE FROM THE TAX TEAM: *Minnesota Tax Update*

KEVIN KOSKI, CPA, DIRECTOR OF TAX SERVICES

Governor Mark Dayton signed an omnibus tax bill on May 30, 2017, that included several changes to Minnesota tax laws we'd like to make you aware of. We will be incorporating these changes as we complete your tax projections or provide you with tax planning recommendations.

Following is a summary of various highlights of the bill:

Estate Tax Changes

- The bill increases the amount that is exempt from estate taxation in 2017 from $1.8 million under current law to $2.1 million. The bill will also increase the exemption amount in annual steps to $2.4 million, $2.7 million, and finally $3 million per person for decedents dying in 2020 and later years.

It is important to note that while Governor Dayton signed the tax bill, he is seeking to re-negotiate some of the provisions included in the bill including the change to the estate tax exemption. A lawsuit between the Legislative and Executive branches of Minnesota government is currently pending which will determine an outcome.

Income Tax Changes

- A new subtraction will be allowed for Social Security benefits of up to $4,500 for married joint filers and $3,500 for single/head of household filers. The subtraction is phased out as income exceeds thresholds of $77,000 for married joint filers and $60,200 for single/head of household filers.
- A new tax benefit in the form of a tax credit or subtraction will be allowed for contributions to any state's Section 529 plan. The credit equals 50% of contributions up to a maximum credit of $500 which is phased out if income exceeds $160,000 for married joint filers or $100,000 for single/head of household filers. If the credit is phased out, a subtraction of up to $3,000 for married joint filers or $1,500 for single/head of household filers would be available.
- A new tax credit of up to $500 is allowed for principal and interest payments on student loans. The credit is subject to various limitations based on the amount of loan payments as compared to earned income.
- A new subtraction is allowed for amounts earned on designated first-time homebuyer accounts.
- A new tax credit is allowed to the seller or lessor of assets to a beginning farmer. To qualify the transaction must be approved and certified by the Rural Finance Authority. A beginning farmer is also eligible for a tax credit for participating in an approved financial management program.
- The domicile test for determining residency status in Minnesota is modified so that the location of a taxpayer's attorney, CPA, financial advisor, or financial institutions cannot be considered by the Minnesota Department of Revenue or a court in determining residency status.
- A new tax credit of up to $2,500 is allowed for licensed K-12 teachers who attain a master's degree within their licensure field.
- The dependent care credit is increased to equal the federal credit while being subject to a state specific phase-out.

Feel free to reach out to us if you would like to discuss how any of these changes may impact your personal situation.

Tax updates featured in previous newsletters can be found at *carlsoncap.com/articles*

FINANCIAL PLANNING

PLANNING FEATURE:
Five Key Estate Planning Matters to Consider Annually


CALLIE GEIST, CFP®, J.D., MBA, INTEGRATED WEALTH ADVISOR

KATY VERMEER, CFP®, INTEGRATED WEALTH ADVISOR

Estate planning is one of the key components of the integrative wealth management process. However, for many people, absent major life changes, drafting or updating estate documents is a process they may only consider every five to ten years. We recommend, however, that clients consider the following five key related items on a more frequent basis:

1 Beneficiary Designations

Beneficiary designations are a very important part of one's broader estate plan because they list the person or entity who would benefit when the account owner passes away. For many, beneficiary-designated accounts represent the majority of their assets so it is critical to be deliberate about who is named to receive these assets. These include Individual Retirement Accounts (both Traditional and Roth), 401(k)s, pensions, annuities, and insurance policies. We encourage clients to name both primary and contingent beneficiaries and review these designations ***annually*** to ensure they are consistent with their intentions.

2 Asset Titling

If one has a trust-based estate plan, it is critically important to properly title the assets in the name of the trust. Assets may include primary residences, vacation homes or cabins, bank accounts, and brokerage accounts, among others. Assets not titled in the name of one's trust will likely go through probate, which may be contrary to the intentions of a trust-based estate plan. We recommend that clients regularly review the ownership of all of their assets to ensure titling is consistent with the design of their estate plan.

3 Incapacity Documents

The two main incapacity documents are a healthcare directive and a financial power of attorney. These legal documents allow a person to name an agent who may make medical and financial decisions on their behalf during times of incapacity. Note that these documents vary by state, so if an individual has a second home or spends significant time in a state other than where the documents were drafted, the individual may want to ask an attorney about drafting additional incapacity documents for that other state.

4

Charitable Gifting

For testamentary charitable gifting, we encourage naming preferred charities as beneficiaries on qualified retirement accounts. We encourage this practice because a charity named as a beneficiary of a qualified retirement account will receive distributions free of any income taxes. On the other hand, an individual named as a beneficiary of a qualified retirement account will pay ordinary income taxes on all distributions.

5

Annual Review

Understandably, clients are concerned about maximizing what they leave behind to their heirs or to charities. To ensure current gifting preferences are accurately reflected, we recommend conducting an annual review of the gift amounts intended for various beneficiaries. At the same time, one should regularly monitor and review (with their advisor) any changes to federal and state laws governing estate tax exemption amounts. In fact, the state of Minnesota recently passed a tax bill that increases the estate tax exemptions. (More information about this change is available in the Update from the Tax Team on page 3.)

In addition to the aforementioned considerations, we encourage conversations with family members about estate planning intentions. These conversations are opportunities to communicate what is important to you, to pass on family values, to achieve a better understanding of desires and goals, and to best plan for the future. Our team at CCM is here to facilitate that process, and step through the above review items, with you and your family at any time.

CCM NAMED A *Financial Times 300 Top RIA*

Carlson Capital Management has been named to Financial Times' Annual FT 300: Top Registered Investment Advisers listing.

FT 300 Ranking June 2017

In the publication's fourth edition of the listing they "assess registered investment advisers on desirable traits for investors." According to editors Fox and Ferraro, "We present the FT 300 as an elite group, not a competitive ranking of one to 300. This is the fairest way to identify the industry's elite advisers while accounting for the companies' different approaches and different specialisations." The colleagues of CCM are very honored to be included in this listing. *ft.com*

WELCOME TO A NEW COLLEAGUE

We are happy to introduce MICAH who has joined CCM as a Paraplanner.

Micah Nelson
Paraplanner
Rochester Office
Babson College (Wellesley, MA) Alumnus

Full colleague biographies can be read at *carlsoncap.com/team*

AT A GLANCE

SECOND QUARTER RETURNS

	Q2 2017	ANNUALIZED 1-YEAR RETURNS	5-YEAR RETURNS	10-YEAR RETURNS
S&P 500 Index	+ 3.09	+ 17.90	+ 14.63	+ 7.18
US Large Value	+ 1.34	+ 15.53	+ 13.94	+ 5.57
US Small Cap	+ 2.46	+ 24.60	+ 13.70	+ 6.92
US Small Value	+ 0.67	+ 24.86	+ 13.39	+ 5.92
International Large Cap	+ 6.12	+ 20.27	+ 8.69	+ 1.03
International Large Value	+ 4.78	+ 25.01	+ 8.12	− 0.08
International Small Cap	+ 8.10	+ 23.18	+ 12.94	+ 3.41
International Small Value	+ 7.31	+ 26.02	+ 13.23	+ 3.39
Emerging Markets	+ 6.27	+ 23.75	+ 3.96	+ 1.91
US Short-Term Bonds	+ 0.65	+ 0.06	+ 1.44	+ 3.20
US Intermediate-Term Bonds	+ 1.45	− 0.31	+ 2.21	+ 4.48

Data represents past performance. Past performance is no guarantee of future results. Chart is for illustrative purposes only. Returns are based on data from the S&P 500, Russell Investments for US indices, MSCI for international and Barclays for bonds for the time period of April 1, 2017 through June 30, 2017.

Indexes used for the table are as follows: S&P 500 TR USD; Russell 1000 Value TR USD; Russell 2000 TR USD; Russell 2000 Value TR USD; MSCI EAFE NR USD; MSCI Value NR USD; MSCI EAFE Small Cap NR USD; MSCI Small Value NR USD; MSCI EM NR USD; Barclays US Govt/Credit 1-5 Yr TR USD; Barclays US Agg Bond TR USD.

- Equity and fixed income markets generated broad gains in the second quarter.
- For the second straight quarter, international stocks outperformed U.S. stocks.
- In the U.S., large company stocks outperformed small company stocks, and growth stocks outperformed value stocks.
- The best performing U.S. sector was health care, which rallied 7.10% in the second quarter. The second and third best were industrials at 4.73% and financials at 4.25%.
- For the second straight quarter, telecom -7.05% and energy -6.36% were the worst performing sectors.
- Short term interest rates rose while longer term rates declined, boosting returns for longer maturity bonds.
- Short term bonds generated returns of 0.65% in the second quarter, while intermediate term bonds generated 1.45% returns.

UPCOMING EVENT

— Save-the-Date —

FOR AN EVENING AT THE MINNESOTA HISTORY MUSEUM

THURSDAY, SEPTEMBER 21, 2017

D'AMICO PROVIDED PHOTO

We look forward to hosting you for an evening reception event with full gallery access and update presentations at the beautiful Minnesota History Museum this fall. More details will be shared closer to the date. We hope you'll mark your calendar and plan to attend!

COMPANY NEWS & COMMUNICATIONS

The CCM Team congratulates CALLIE GEIST, Integrated Wealth Advisor and ADAM HOFFMANN, Director of Investments & Research who recently earned key industry certifications.

Callie has earned the CERTIFIED FINANCIAL PLANNER™ designation. In addition to completing a board certified education program, passing the exam, and agreeing to uphold rigorous ethical standards, candidates must also complete several years of financial planning experience. Callie adds the CFP® certification to her Juris Doctor and MBA degree credentials. *cfp.net*

Adam has earned the professional designation of ACCREDITED INVESTMENT FIDUCIARY® (AIF) granted through the Center for Fiduciary Studies. The AIF designation represents a thorough knowledge of and ability to implement prudent processes into daily fiduciary practices. In addition to completing a training program, AIF designees must pass a final exam, conform to a code of ethics, and fulfill annual continuing education requirements. *fi360.com*

CCM Director of Human Capital, SCOTT FERARO, has recently joined the board of directors of Artistry (at the Bloomington Center for the Arts). Artistry is a regional arts non-profit serving more than 80,000 people annually through theater, visual arts, arts education, and creative place-making programs. *artistrymn.org*

On May 11, CCM COLLEAGUES volunteered with the Northfield Community Action Center (CAC)'s weekly meal service- THURSDAY'S TABLE, an opportunity our team always looks forward to. Thursday's Table invites everyone, particularly people experiencing life transitions, to a free, hot, healthy meal. CCM Advisor, MATTHEW RICH, serves on the CAC Board of Directors. *communityactioncenter.org*

In early May, members of the CCM Advisory Team and firm Directors gathered with our ZERO ALPHA GROUP (ZAG) peers for the annual ZAG Forum, held in Chicago. This year's theme, "Discovering Your Strengths," was presented by experts from Gallup, the renowned research-based global consulting company. ZAG is a national network of independent wealth management firms serving clients in a fiduciary capacity. CCM has been a member of ZAG for nearly fifteen years. *carlsoncap.com/zero-alpha-group*

CYBERSECURITY UPDATE

TIM JACKSON, DIRECTOR OF OPERATIONS & TECHNOLOGY

In late June, CCM received an alert from Schwab that they were responding to a large-scale phishing attempt in which some clients were receiving emails that appeared to be sent by Schwab, requesting personal information by email. Unfortunately, fraudulent attempts to get personal information through phishing schemes are becoming more and more common. We've posted information on our website about how we work to protect your data at CCM, as well as tips on proactive steps you can take to make your personal information more secure: *carlsoncap.com/cybersecurity.* This is a topic of critical importance to us at CCM. Be sure to contact us if you have any questions.

Not pictured: Kelly Irvine, Chris Kuhn and Micah Nelson

CARLSON CAPITAL MANAGEMENT CELEBRATES THIRTY YEARS OF SERVING CLIENTS IN 2017

We are privileged to serve you and your families and thank our many loyal clients who have been with us for much of our journey as a firm.

IMPORTANT DISCLOSURE INFORMATION: *Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Carlson Capital Management, LLC ("CCM"), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from CCM. Please remember to contact CCM, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. CCM is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of CCM's current written disclosure Brochure discussing our advisory services and fees is available upon request.*

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