**IN THIS ISSUE**

- Q4 2016 CEF Market Review
- Historical CEF Discounts
- What’s Happening at Matisse
- Lookthrough Allocation
- Top 10 Holdings

**CURRENT MARKET OPPORTUNITIES**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Our Strategy</td>
<td>16.1%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Allocation</td>
<td>10.1%</td>
<td>8.0%</td>
</tr>
<tr>
<td>REITs</td>
<td>12.5%</td>
<td>8.7%</td>
</tr>
<tr>
<td>International Equity</td>
<td>11.3%</td>
<td>6.9%</td>
</tr>
<tr>
<td>US Equity</td>
<td>9.8%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

**Q4 2016 CEF MARKET REVIEW**

2016 was a good year for our strategy, returning +16.0% net. Remarkably, our portfolio is a better bargain today than it was a year ago (as measured by discounts), even after a year of good performance. Our portfolio’s average discount to start 2016 was 15.8% compared to 16.1% at year-end (and distributes approx. 5.2% income).

How can our fund be cheaper after a big return? Our strategy is first and foremost, to own a broadly diversified portfolio of fundamentally sound, deeply discounted CEFs. Throughout the year, we look to opportunistically take advantage of funds moving in and out of that core portfolio of the deepest discounts in the universe.

Last year, discounts in the overall universe narrowed by an average of 1.53% which helped. But in our portfolio, we captured +4.73% of excess return by deftly moving in and out of funds when discounts moved enough to warrant replacements (for example, sell a fund at a 12% discount, and replace with a new fund at a 16% discount).

Opportunistic trading is why our year-end portfolio is more discounted than at the start of the year, despite returning +16.0%. We believe our proprietary database with 29 years of monthly data and trading ranges on CEFs is proving to be very advantageous.

What opportunities are we seeing today? Our portfolio began 2016 with a lookthrough allocation of roughly 40% US Stocks, 35-40% Bonds, and 15-20% Foreign Stocks. Today we have approx. 50% in US Stocks, 7% in Bonds, 7% in Cash, and 30-35% in Foreign Stocks. Allocation moves are ultimately determined by fund discount levels (for example, bond funds became very expensive last year as the 10-year treasury yield was hitting an all-time low yield, so we gradually reduced exposure).

**+16.03% Full Year 2016**

**Q4 2016 Performance Review:**

<table>
<thead>
<tr>
<th></th>
<th>Q4 2016</th>
<th>Full Year 2016</th>
<th>Annualized Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matisse Discounted Closed-End Fund Strategy</td>
<td>+0.2%</td>
<td>+16.0%</td>
<td>+8.3%</td>
</tr>
<tr>
<td>S-Network Composite CEF Index</td>
<td>+0.4%</td>
<td>+14.9%</td>
<td>+6.2%</td>
</tr>
<tr>
<td>S&amp;P Target Risk Growth (Balanced)</td>
<td>-0.5%</td>
<td>+6.7%</td>
<td>+5.2%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>+3.8%</td>
<td>+12.0%</td>
<td>+7.7%</td>
</tr>
</tbody>
</table>

As a firm focused on closed-end fund (CEF) portfolio management, we want to keep you up to date on current CEF market stats/developments as well as our performance. The Matisse Discounted Closed-End Fund Strategy composite returned +16.0% net for the year in 2016. The Strategy’s current average discount to NAV is 16.1%, and its current distribution yield is 5.2% (see Strategy Performance Highlights).
Our current buy list contains highly discounted CEFs from all corners of the universe, but most prominently features International Equity CEFs (both Developed and Emerging Markets). In fact, the average International Equity CEF trades at an astounding 11.3% discount as of 12/31/16 – a full 1.5 standard deviations cheaper than this sector’s 6.9% average discount since 2006. Investors seem to be chasing the strong US dollar, and fleeing out of overseas stocks which have produced miserable annualized returns in the last decade (+1% MSCI EAFE to +2% MSCI Emerging Markets). We are also seeing great opportunities in US Equity and Hybrid CEFs.

**The two biggest takeaways right now:**

1) Bond funds are expensive – we have a very low exposure
2) Investors dislike Foreign and EM funds – so we are gradually buying foreign funds with very deep discounts

Looking at the long-term track record of our strategy, our unique alpha source (only available through CEF discount movements) has helped us achieve an +8.3% net annualized return over the 11-year life of our strategy – outperforming our relative benchmarks (see strategy performance highlights). Our alpha (2-3% per year after fees) can be attributed entirely to trading CEF discount movements. If robots don’t take over the investment management business entirely, we will continue to be well positioned to take advantage of other investors’ emotional decisions of typically chasing returns and buying/selling funds at the wrong time.

**HISTORICAL CEF DISCOUNTS**

![CEF Discounts Chart](chart.png)

Colored dots represent current discount levels today

**CEF Discounts Chart**

- **Average Discount for Bond CEFs (since 2005)**
- **Average Discount for Equity/Other CEFs (since 2005)**
- **Average Discount for Entire CEF Universe (since 2005)**
- **Average Discount for Our Portfolio (since 2005)**

Colored dots represent current discount levels today.
WHAT’S HAPPENING AT MATISSE

- Our publicly traded mutual fund that employs our discounted CEF strategy has been a Morningstar® 5-star fund since July 2016.

TYPICAL ACCOUNT LOOKTHROUGH ALLOCATION 12.31.16

TOP 10 HOLDINGS AS OF 12.31.16

Boulder Growth & Income
Alpine Global Premier Property
RMR Real Estate Income Fund
Royce Value Trust
Central Securities Corporation
Alpine Total Dynamic Dividend
Liberty All-Star Equity
General American Investors
Adams Diversified Equity Fund
Clough Global Opportunities

Source: Morningstar®