Closed-End Fund Market Update

Matisse

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+13.02% YTD 2017

Q2 2017 Performance Review:

	June 2017	Q2 2017	Annualized Since Inception
Matisse Discounted Closed-End Fund Strategy	+1.4%	+4.6%	+9.1%
S-Network Composite CEF Index	+0.3%	+4.2%	+6.8%
S&P Target Risk Growth (Balanced)	+0.4%	+3.3%	+5.7%
S&P 500	+0.6%	+3.1%	+8.2%

The Matisse Discounted Closed-End Fund Strategy composite returned +13.0% net for the first half of 2017. The Strategy's current average discount to NAV is 12.9%, and its current indicated cash distribution yield is 3.2% (*see Strategy Performance Highlights*).

IN THIS ISSUE

Q2 2017 CEF MARKET REVIEW

Continuing the theme from first quarter, we saw another solid quarter in the CEF market. Overall CEF discounts narrowed by approx. 137 bps during Q2, with all CEF types narrowing. Our strategy benefited from the discount movement, returning +4.6% during Q2 (+13.0% YTD).

CEF Market Performance Highlights:

	Q2 2017	YTD 2017
Equity CEFs	+3.9%	+12.7%
Taxable Bond CEFs	+3.7%	+8.4%
Muni Bond CEFs	+4.0%	+6.7%

CURRENT MARKET OPPORTUNITIES

	Avg. Discount End Q2 2017	Avg. Discount Since Strategy Launch
Our Strategy	12.9%	13.4%
REITs	8.5%	8.7%
International Equity	7.4%	7.0%
EM Equity	9.7%	9.2%
Municipal Bond	3.0%	2.9%

STRATEGY PERFORMANCE HIGHLIGHTS

Q2 2017 Return	4.6%
YTD 2017 Return	13.0%
One-Year Return	19.6%
Three-Year Annualized Return	6.1%
Five-Year Annualized Return	9.2%
Ten-Year Annualized Return	7.6%
Current Discount to NAV	12.9%
Current Distribution Yield	3.2%
Annualized Return Since Inception	9.1%
Compare to S-Network Composite CEF Index	6.8%
Compare to S&P Target Risk Growth (Balanced)	5.7%
Compare to S&P 500	8.2%

*Data (except for distribution yield) is after a 1% annual mgmt. fee

WHAT'S HAPPENING AT MATISSE

- We've made some changes to our website and the way we share our content – we encourage you to visit www.matissefunds.com and view our library of CEF market updates, whitepapers, relevant news articles, performance materials, and educational links on CEFs.
- Our publicly traded mutual fund that employs our discounted CEF strategy has been a Morningstar® 5-star fund since July 2016.
- Future Schedule – Bryn and some team members will be presenting at conferences in Dana Point (September 2017), Austin (November 2017), and Miami (January 2018). If you would like a meeting while we're in your area, please contact us to arrange.

THINKING OUTSIDE THE "STYLE BOX"

In traditional portfolios, 80% to 90% of a portfolio's return comes from asset allocation, which means selecting managers or index funds with the best risk-adjusted and fee-adjusted returns makes complete sense. It's conventional wisdom that equities typically return 10% + or - 2% long-term regardless of style or region. **But how can advisors or consultants take advantage of "out of favor" asset classes, regions, or manager style underperformance?**

When asset classes or manager styles go out of favor (see red boxes below), how can advisors or consultants be opportunistic and allocate to these underperforming areas? In most scenarios, it's very difficult – setting up "special meetings" to discuss, or even going out on a "limb" to hire an out of favor manager or asset class can be uncomfortable. We think our strategy can help avoid these difficult situations, but still allow one to take advantage of opportunities that may come and go quickly.

U.S. Manager "Style Box" (YTD)

	Value	Growth	Blend
Large	+5.6%	+14.1%	+8.6%
Mid	+4.6%	+12.4%	+6.2%
Small	+0.5%	+10.1%	+3.2%

Asset Class Returns

	Foreign Large	U.S. Large	Emerging Markets	U.S. Bond
1-Year	+19.1%	+17.2%	+20.5%	+0.9%
3-Year	+1.2%	+7.6%	+0.5%	+2.2%
5-Year	+7.8%	+13.4%	+4.1%	+2.5%
10-Year	+1.0%	+6.2%	+1.5%	+4.3%

Returns by Region

	China	Europe	India	Latin America
1-Year	+26.3%	+19.9%	+23.6%	+13.6%
3-Year	+6.8%	+1.0%	+9.4%	-7.8%
5-Year	+8.7%	+9.3%	+12.6%	-4.9%
10-Year	+3.5%	+1.1%	+3.9%	-2.1%

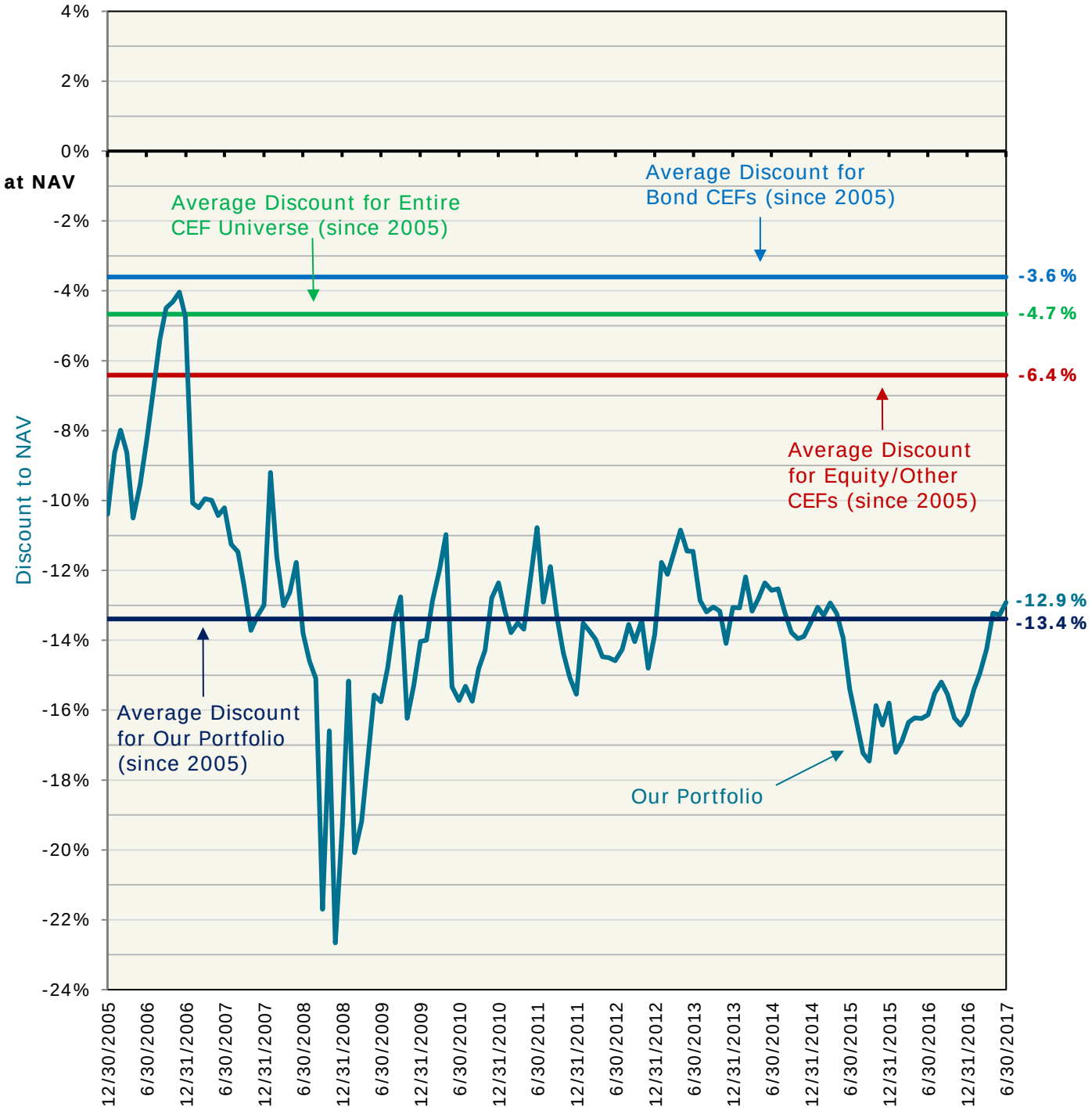
Why does Matisse have an edge over "style box" specific strategies? CEF discounts (and occasional "extreme" discounts) are great indicators of investor sentiment. When you combine discounts with qualitative research, we believe our investment process simply finds opportunities more efficiently. For example, qualitative research indicated that a basket of Emerging Market (FXEM) currencies was almost 2 standard deviations (or 40%) below its normal level to the U.S. dollar. With Emerging Market economies finally improving and valuations nearly 50% below U.S. stocks (as measured by P/E ratios), we had strong evidence to move to a 15-20% allocation to Emerging Markets and 10-15% to Developed Markets.

Emerging Markets have been grossly out of favor. Three and five-year performance for Emerging Markets is poor (see chart above) and investors sold heavily as a result – not just in open-ended funds, but in CEFs too. Today, discounts are still deep in Emerging Market CEFs, but we expect to profit handsomely from a narrowing of discounts in the future.

Most consultants and advisors can't move fast enough to take advantage of opportunities we see (sometimes daily). Why not allocate assets to a strategy that does this naturally? We don't claim to always be right, but our batting average is much better than most, and it has helped deliver great long-term risk-adjusted rates of returns.

We think adding our approach to a well-diversified "static" portfolio enables clients to have a portion of their assets automatically shift to unloved asset classes (typically before they bottom out) – the opposite of chasing performance.

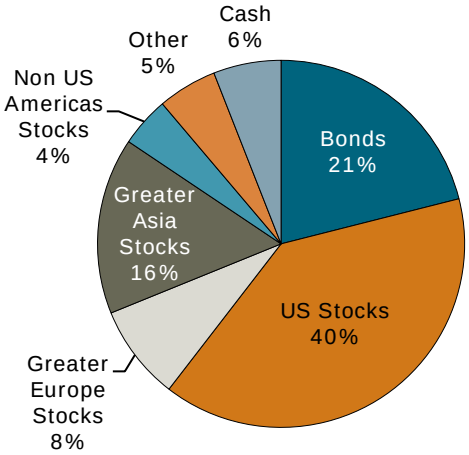
HISTORICAL CEF DISCOUNTS



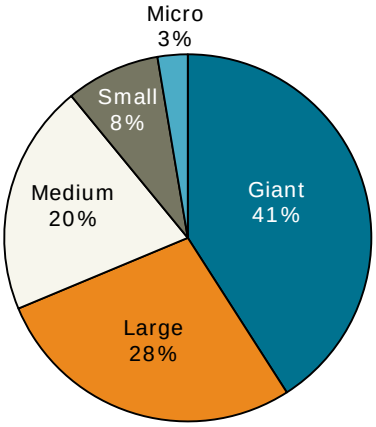
Source: Matisse Capital

TYPICAL ACCOUNT LOOKTHROUGH ALLOCATION 6.30.17

Asset Allocation



Equity Cap Allocation



Source: Morningstar®

TOP 10 HOLDINGS AS OF 6.30.17

Boulder Growth & Income
RMR Real Estate Income Fund
Central Securities Corporation
Adams Diversified Equity Fund
Source Capital Inc
Liberty All-Star Equity
Adams Natural Resources Fund
General American Investors
Nuveen NJ Quality Muni Inc
MS Emerging Markets

Source: Morningstar®

DISCLOSURES

Matisse Capital (Deschutes Portfolio Strategy, LLC) is the advisory firm to Matisse. Performance cited currently represents a composite of all Matisse Capital-advised accounts employing our discounted closed-end fund strategy, including our publicly traded mutual fund, net of all commissions, and separate accounts with a presumed 1% management fee. For details of the performance calculation method, please see our separate audited report. All performance figures for the strategy (except cash distribution yield) are total returns net of actual commissions incurred, and net of a presumed 1% annual management fee. Benchmark returns, by contrast, do not reflect a deduction for fees. You cannot invest directly in an index. **Performance comparisons are for illustrative purposes only and are not a forecast of future returns.** Alpha, beta and R2 are annualized since inception. Please contact us if you would like to receive a copy of the performance audit from ACA Compliance Group (formerly Ashland Partners). Although the above data is derived from sources deemed to be accurate, Matisse Capital does not guarantee its accuracy.

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