+13.02% YTD 2017

**Q2 2017 Performance Review:**

<table>
<thead>
<tr>
<th></th>
<th>June 2017</th>
<th>Q2 2017</th>
<th>Annualized Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matisse Discounted Closed-End Fund Strategy</td>
<td>+1.4%</td>
<td>+4.6%</td>
<td>+9.1%</td>
</tr>
<tr>
<td>S-Network Composite CEF Index</td>
<td>+0.3%</td>
<td>+4.2%</td>
<td>+6.8%</td>
</tr>
<tr>
<td>S&amp;P Target Risk Growth (Balanced)</td>
<td>+0.4%</td>
<td>+3.3%</td>
<td>+5.7%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>+0.6%</td>
<td>+3.1%</td>
<td>+8.2%</td>
</tr>
</tbody>
</table>

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).

**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:**

<table>
<thead>
<tr>
<th></th>
<th>Q2 2017</th>
<th>YTD 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity CEFs</td>
<td>+3.9%</td>
<td>+12.7%</td>
</tr>
<tr>
<td>Taxable Bond CEFs</td>
<td>+3.7%</td>
<td>+8.4%</td>
</tr>
<tr>
<td>Muni Bond CEFs</td>
<td>+4.0%</td>
<td>+6.7%</td>
</tr>
</tbody>
</table>

**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.

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

Average Discount for Entire CEF Universe (since 2005)

Average Discount for Bond CEFs (since 2005)

-3.6%

-4.7%

-6.4%

Average Discount for Equity/Other CEFs (since 2005)

-12.9%

-13.4%

Average Discount for Our Portfolio (since 2005)

-4.7%

-6.4%

Average Discount for Entire CEF Universe (since 2005)

Our Portfolio

Source: Matisse Capital
TYPICAL ACCOUNT LOOKTHROUGH ALLOCATION 6.30.17

Asset Allocation

- Bonds: 21%
- US Stocks: 40%
- Greater Europe Stocks: 8%
- Greater Asia Stocks: 16%
- Non US Americas Stocks: 4%
- Other: 5%
- Cash: 6%

Equity Cap Allocation

- Giant: 41%
- Large: 28%
- Medium: 20%
- Small: 8%
- Micro: 3%

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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