There has been tremendous discount widening across the entire CEF space over the last few weeks — culminating in what we can only describe (hopefully) as a “blow-off capitulation” yesterday (12/20/18). Historically, two culprits are typically responsible for such an “across-the-board” CEF discount widening event:

I. General market uncertainty causing broad selling; and
II. Tax-loss selling (specific to CEFs in November/December).

How bad was it yesterday (12/20/18), and what are the signs we see of a “blow-off” bottom in CEF discounts?

1) Consider the magnitude of the move in the universe:

- The average discount in the universe was 4.9% at the end of 2017 (close to its long-term average).
- At the end of November it had widened to 8.4%.
- As of Wednesday (12/19/18), it stood at 10.3%.
- Yesterday (12/20/18) it gapped out to a shocking 11.6%!
You have to go back to 2008 (and before that to 1999-2000) to find the only month-ends in history where CEF discounts (on average) widened past 11%.

For the universe as a whole, yesterday’s (12/20/18) discount level is a 2.5 standard deviation event!

Our portfolio of CEFs within MDCEX closed yesterday (12/20/18) at a 16.7% weighted average discount – and that includes a few funds with announced liquidation-at-NAV events – counting these out, we are at an 18.3% discount!

2) Consider how broad-based the discount widening was – this wasn’t about a single sector or asset class:
   - All major segments of the universe widened by 80-210 bps.
   - The average muni CEF widened by 80 bps and, due to underlying positive NAV performance, only lost 67 bps in total return.
   - The average non-muni CEF widened by 152 bps, and lost 114 more bps due to NAV decline, for a total of a 266 bps total loss on the day.
   - MDCEX was a relative “winner” by only losing 1.5% yesterday (12/20/18).

3) Look at the volume yesterday (12/20/18):
   - The median CEF traded 2.8 times its average 6-month volume.
   - Looking only at funds whose discounts widened by 3 percentage points or more, these traded 3.6 times their average 6-month volume.

4) Consider that 82% of the non-muni CEF universe traded (at least intra-day) at a fresh 52-week low yesterday (12/20/18):
   - This is for a very diversified group of equity, taxable bond, and balanced funds.
   - By way of comparison, note that only 50% of S&P 500 names traded at 52-week lows yesterday (12/20/18).

5) Consider how historically unusual this kind of broad-based move on a single day has been for CEFs.
   - In fact, over the past 7 years, yesterday marks only the third day when the average Equity CEF lost 3% or more, and the average Taxable Bond CEF lost 2% or more.
Within this environment, we have been happily shopping for extremely discounted CEFs (and replacing current holdings whose discounts have held up better recently).

Our short-term results\(^1\) (while disappointing in absolute terms) have beaten our peers and broad CEF indexes:

<table>
<thead>
<tr>
<th></th>
<th>Total Return QTD (10/1/18 to 12/20/18) (^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDCEX</td>
<td>-7.9%</td>
</tr>
<tr>
<td>SPY</td>
<td>-15.0%</td>
</tr>
<tr>
<td>ACWI</td>
<td>-13.7%</td>
</tr>
<tr>
<td>PCEF</td>
<td>-12.6%</td>
</tr>
<tr>
<td>YYY</td>
<td>-12.9%</td>
</tr>
<tr>
<td>FT Eqty CEF Idx</td>
<td>-17.8%</td>
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</tbody>
</table>

This short-term “lose-you-less” result has provided us with exceptional absolute and relative performance over longer periods as well \(^1\):

<table>
<thead>
<tr>
<th></th>
<th>Total Return Since 1/20/2016 Market Low (to 12/20/2018) (^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDCEX</td>
<td>+46.5%</td>
</tr>
<tr>
<td>SPY</td>
<td>+40.5%</td>
</tr>
<tr>
<td>ACWI</td>
<td>+34.5%</td>
</tr>
<tr>
<td>PCEF</td>
<td>+24.5%</td>
</tr>
<tr>
<td>YYY</td>
<td>+27.9%</td>
</tr>
<tr>
<td>FT Eqty CEF Idx</td>
<td>+34.1%</td>
</tr>
</tbody>
</table>

We thank our investors for their ongoing support and investment, and hope that today’s exceptionally wide discounts lead to equally impressive future returns.

-The Matisse Capital Team
Disclaimers:

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