State of the Closed-End Fund Market

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Matisse

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

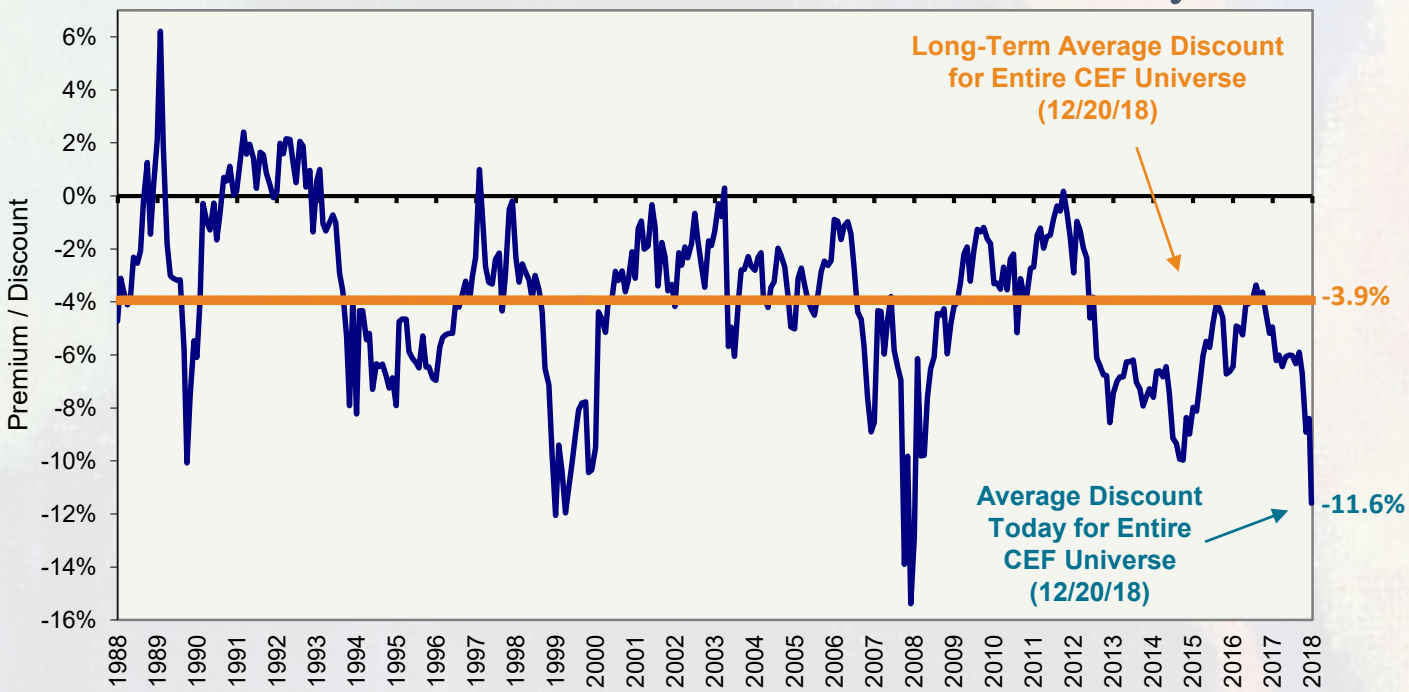
II. Tax-loss selling (specific to CEFs in November/December).

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%!

Closed-End Fund Universe: Discount History



Source: Matisse Capital

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:

	Total Return QTD (10/1/18 to 12/20/18) [1]
MDCEX	-7.9%
SPY	-15.0%
ACWI	-13.7%
PCEF	-12.6%
YYY	-12.9%
FT Eqty CEF Idx	-17.8%

This short-term "lose-you-less" result has provided us with exceptional absolute and relative performance over longer periods as well [1]:

	Total Return Since 1/20/2016 Market Low (to 12/20/2018) [1]
MDCEX	+46.5%
SPY	+40.5%
ACWI	+34.5%
PCEF	+24.5%
YYY	+27.9%
FT Eqty CEF Idx	+34.1%

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:

[1]Matisse Capital (Deschutes Portfolio Strategy, LLC) is the advisory firm to the Matisse Discounted Closed-End Fund Strategy and mutual fund. 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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