3rd Quarter 2020 Strategy Commentary

Matisse Discounted Closed-End Fund Strategy Composite

September 30th, 2020

Investment Objective: Income with Modest Growth. The Strategy’s investment objective is to produce superior risk-adjusted returns by purchasing income-producing closed-end funds at significant discounts to NAV1. We scrutinize the entire universe of US closed-end funds daily, using our proprietary statistical model to select closed-end funds best positioned for both capital gains and income. We build a diversified, globally balanced portfolio using closed-end funds.

<table>
<thead>
<tr>
<th>Performance Highlights2,3 (as of 9/30/2020)</th>
<th>Total Return Since Inception4</th>
<th>Annualized Return Since Inception4</th>
<th>10-Year</th>
<th>5-Year</th>
<th>3-Year</th>
<th>1-Year</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matisse Discounted CEF Strategy Composite</td>
<td>167.6%</td>
<td>6.9%</td>
<td>5.6%</td>
<td>6.2%</td>
<td>-1.7%</td>
<td>-14.9%</td>
<td>-19.4%</td>
</tr>
<tr>
<td>S-Network Composite Closed-End Fund Total Return Index5</td>
<td>135.6%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>7.7%</td>
<td>2.3%</td>
<td>-2.3%</td>
<td>-7.0%</td>
</tr>
<tr>
<td>S&amp;P 500® Index6</td>
<td>266.5%</td>
<td>9.2%</td>
<td>13.7%</td>
<td>14.1%</td>
<td>12.3%</td>
<td>15.1%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

Strategy Outlook

After rebounding approximately 50% since the market low (on 3/18/2020), the Matisse Discounted Closed-End Fund Strategy Composite is still down a disappointing -19.4% year-to-date through quarter-end. Right now, we believe there are record bargains available for investors in the closed-end fund market (see historical discount charts on page 4). Given our year-to-date performance, some of our investors may be wondering “why should I stay in the strategy?” To start, finding the type of yield that our strategy can generate (with daily liquidity) is nearly impossible in today’s market.

As our investors know, closed-end funds are valued for their ability to generate steady cash distribution income. While no level of income is guaranteed, the average closed-end fund’s average annual cash payout over the past 20 years has been approx. 7%. These cash distributions (like dividends on common stock), are usually paid monthly or quarterly, and may be classified as income, capital gains, or return of capital. Our strategy’s portfolio consists of a diversified pool of closed-end funds. We receive these cash distributions, and in turn pay out a quarterly cash distribution similar in size to what we receive. As with the underlying closed-end funds, our own distribution may be classified as income, capital gains, or return of capital. And although we do intend to make regular cash distributions, there can be no guarantee. Given current depressed prices for closed-end funds, and our own resulting (and hopefully temporarily) depressed NAV1, our planned quarterly cash distribution amounts to 7.12% based on our 9/30/2020 NAV1. The table below shows the cash flows that could result from a $1 million initial investment over the next five years if things stay the same. Even if our distributions drop some as a percentage, a brief inspection should demonstrate that closed-end fund cash distributions compare favorably to many other investment alternatives today. An investor should note, of course, that as a global balanced strategy, our volatility/risk is higher than some of the other investments listed in the table.

<table>
<thead>
<tr>
<th></th>
<th>10-Year US Treasury</th>
<th>Nasdaq 100</th>
<th>S&amp;P 500® Index6</th>
<th>JNK</th>
<th>Matisse Discounted CEF Strategy Composite</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield</td>
<td>0.69%</td>
<td>0.79%</td>
<td>1.75%</td>
<td>5.23%</td>
<td>7.12%</td>
</tr>
<tr>
<td>Year 1</td>
<td>$6,850</td>
<td>$7,900</td>
<td>$17,500</td>
<td>$52,330</td>
<td>$71,159</td>
</tr>
<tr>
<td>Year 2</td>
<td>$6,850</td>
<td>$7,900</td>
<td>$17,500</td>
<td>$52,330</td>
<td>$71,159</td>
</tr>
<tr>
<td>Year 3</td>
<td>$6,850</td>
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<td>$17,500</td>
<td>$52,330</td>
<td>$71,159</td>
</tr>
<tr>
<td>Year 4</td>
<td>$6,850</td>
<td>$7,900</td>
<td>$17,500</td>
<td>$52,330</td>
<td>$71,159</td>
</tr>
<tr>
<td>Year 5</td>
<td>$6,850</td>
<td>$7,900</td>
<td>$17,500</td>
<td>$52,330</td>
<td>$71,159</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$34,250</td>
<td>$39,500</td>
<td>$87,500</td>
<td>$261,650</td>
<td>$355,795</td>
</tr>
</tbody>
</table>

With the 10-year US treasury currently yielding 0.69%, it would take over 100 years to double your initial investment. If you invested in riskier junk bonds (yielding 5.23% today), you would not likely generate as much income as one might using our strategy.
If you look under the hood, the average discount to NAV\(^1\) of the underlying holdings in our strategy is 22.8% as of quarter-end. This is the single largest month-end average discount to NAV\(^1\) for our strategy since its inception\(^4\). In other words, the average holding within our strategy trades at 77.2 cents on the dollar. If you liquidated out of our strategy today, you’d essentially be selling an underlying portfolio that’s priced 22.8% below its NAV\(^1\) (on average) and foregoing 7.12% in yield.

Record discount widening in closed-end funds has been the primary reason for our underperformance in 2020. Our strategy has returned approx. 25% over the past two quarters despite its weighted average discount to NAV\(^1\) widening from 20.4% (as of 3/31/2020) to now 22.8%. When closed-end funds went through a similar period of discount widening (4th quarter 2008), our strategy returned more than 100% for investors over the subsequent 3-years.

Our management team is very optimistic as we look forward over these next 12 to 24 months, given today’s record discount levels in closed-end funds. Going forward, we believe that any significant success we realize could come from some combination of the following sources:

1. Significant discount narrowing
2. Excess income from cash distributions
3. Recovery of beaten-down NAVs\(^1\)
4. Possible open-endings or liquidations of closed-end funds
5. A reversal of the Growth/Value, US/Foreign, and Large Cap/Small Cap dynamics
6. An environment with an abundance of discount capture and trading opportunities

We believe that one important advantage for closed-end funds, in general (as we consider the overall outlook for our strategy) is today’s extremely low level of interest rates. Back in 2008, the 10-year US treasury yield never fell below 2.00%. As of quarter-end, the 10-year US treasury yield was 0.69%. More importantly, the Fed has committed itself to zero rates for the foreseeable future, even stating explicitly that they will allow inflation to run above two percent “for a time” (should that ever come to pass). In our view, the structural advantages of closed-end funds (easy and cheap borrowing paired with high and largely sustainable cash distributions) will eventually be found by an increasing number of investors who ignore closed-end funds now. Investors desire yield, and closed-end funds may eventually become a mainstream and common option to satisfy investor’s income needs. If this trend is realized, then discounts could ultimately narrow for secular reasons for years to come. In our opinion, it makes today’s record discount levels that much more exciting.

Another theme we want to emphasize is that we’ve statistically performed better than the S&P 500\(^6\) on down days in the market:

Since 10/31/2012: on down days in the S&P 500\(^6\), the median loss of our strategy has been -0.27% compared to -0.38% for the S&P 500\(^6\) (our strategy outperformed the S&P 500\(^6\) 75% of the time with a beta of 0.65).

Year-to-date in 2020: on down days in the S&P 500\(^6\), the median loss of our strategy has been -0.52% compared to -0.94% for the S&P 500\(^6\) (our strategy outperformed the S&P 500\(^6\) 81% of the time with a beta of 0.74).

On a final note, tax-loss selling is typically prevalent in the fourth quarter, and this could contribute to further widening of closed-end fund discounts until year-end. Our research shows that closed-end fund performance is typically better after tax-loss selling season.
3rd Quarter 2020 Strategy Commentary

Matisse Discounted Closed-End Fund Strategy Composite

Current Market Environment

As of September 30th, 2020, discounts on all closed-end funds stood at 8.7% on average. During the quarter, the average discount in the entire universe of closed-end funds widened by approximately 52 basis points. The most recent quarter-end average discount of 8.7% is wider than the average discount level on March 31st, 2020 (when it was 8.6%).

Generally speaking, highly discounted closed-end funds (those in the bottom quintile of discounts) widened more than the broad closed-end fund market. The discounts on highly discounted closed-end funds widened by an average of 132 basis points during the quarter, while all other closed-end fund discounts widened by approximately 38 basis points on average. Discount widening, all else equal, serves as a headwind for closed-end fund investors.

Discounts on MLP closed-end funds widened by more than 6 percentage points during the quarter. As of quarter-end, the average discount on all MLP closed-end funds stood at over 26.0%, which is significantly wider than the long-term average discount on MLP closed-end funds. In our opinion, MLP closed-end funds are currently the most attractive closed-end fund sector as a group, statistically speaking based on current average discounts compared to long-term average discounts.

Other notable highlights in the closed-end fund market are International Equity closed-end funds and US Equity closed-end funds. International Equity closed-end funds current average discount is 14.6% (compared to a trailing 10-year average discount of 8.6%). US Equity closed-end funds current average discount is 13.7% (compared to a trailing 10-year average discount of 6.3%).

In our professional opinion, the current market environment in closed-end funds is favorable for closed-end fund investors, and we could see significant discount narrowing over the next 12 to 24 months.

Historical Discounts to NAV\(^1\):
Matisse Discounted CEF Strategy Composite

(as of 9/30/2020)

Historical discounts to NAV\(^1\): Matisse Discounted CEF Strategy Composite

Average Discount for Matisse Discounted CEF Strategy Composite (since inception\(^4\))

Matisse Discounted CEF Strategy Composite Current Discount

Source: Matisse Capital
3rd Quarter 2020 Strategy Commentary
Matisse Discounted Closed-End Fund Strategy Composite

Current Market Environment

Historical Discounts to NAV\(^1\): Entire Closed-End Fund Universe (as of 9/30/2020)

-16% \(\rightarrow\) -12% \(\rightarrow\) -8% \(\rightarrow\) -4% \(\rightarrow\) 0% \(\rightarrow\) 4%

Average Discount for Entire CEF Universe (Trailing 10-Years)
Entire CEF Universe Current Discount

Historical Discounts to NAV\(^1\): US Equity Closed-End Funds (as of 9/30/2020)

-16% \(\rightarrow\) -12% \(\rightarrow\) -8% \(\rightarrow\) -4% \(\rightarrow\) 0% \(\rightarrow\) 4%

Average Discount for US Equity CEFs (Trailing 10-Years)
US Equity CEFs Current Discount

Historical Discounts to NAV\(^1\): International Equity Closed-End Funds (as of 9/30/2020)

-16% \(\rightarrow\) -12% \(\rightarrow\) -8% \(\rightarrow\) -4% \(\rightarrow\) 0% \(\rightarrow\) 4%

Average Discount for International Equity CEFs (Trailing 10-Years)
International Equity CEFs Current Discount

Source: Matisse Capital
3rd Quarter 2020 Strategy Commentary

Matisse Discounted Closed-End Fund Strategy Composite

Performance Contributors and Detractors

Top Contributor #1
Pershing Square Holdings (PSH NA) contributed 128 basis points to our third quarter return. It began the quarter at a 31.9% discount and ended the quarter at a 30.3% discount. The underlying NAV\(^1\) of this position appreciated 14% during the quarter. Discount narrowing combined with the underlying NAV\(^1\) movement resulted in a gain of 17% during the quarter. PSH NA was an 8% position in our strategy to start the quarter, and it now represents just under 9% of our strategy as of quarter-end (our largest holding). Pershing Square is buying back shares and pays a dividend, and we believe the discount may narrow substantially. PSH NA has traded at an 18% discount since its launch in 2014.

In addition, there is potential underappreciated NAV\(^1\) upside in the form of Pershing Square’s recently issued SPAC, Pershing Square Tontine Holdings (PSTH). PSTH is the largest SPAC issued this year (at $5 billion), and it effectively expands Bill Ackman’s reach into the not-yet-public market. PSH has a large position in PSTH, with the right to increase the position if a deal is consummated, along with standard warrants. This optionality is currently reflected in PSH’s NAV\(^1\) at a nominal value, giving PSH investors potential upside if Ackman can find an attractive target (and the IPO market stays robust), along with minimal downside if not.

Top Contributor #2
Third Point Investors (TPOU LN) contributed 80 basis points to our third quarter return. It began the quarter at a 26.1% discount and ended the quarter at a 23.2% discount. The underlying NAV\(^1\) of this position appreciated 13% during the quarter. Discount narrowing combined with the underlying NAV\(^1\) movement resulted in a gain of 17% during the quarter. TPOU LN was a 5% position in our strategy to start the quarter, and it remains a 5% position in our strategy as of quarter-end. Third Point is buying back shares, we’ve noticed more institutional and discount-focused investors have been purchasing shares recently, and we believe the discount may narrow substantially. TPOU LN has traded at a 16% discount since its launch in 2007. Also notable, chairman Steve Bates (who began in 2019) instituted the share buyback and promised to come back to shareholders with revised proposals to address TPOU LN’s large discount to NAV\(^1\) within 3 years.

Top Detractor #1
NexPoint Strategic Opportunities Fund (NHF) detracted 55 basis points from our third quarter return. This came after contributing 106 basis points to our return in the second quarter. NHF began the quarter at a 40.1% discount to NAV\(^1\) and ended the quarter at a 49.2% discount. The underlying NAV\(^1\) of this position depreciated 1% during the quarter. Discount widening combined with the underlying NAV\(^1\) movement resulted in a loss of 15% during the quarter. NHF was a 4% position in our strategy to start the quarter, and due to underlying NAV\(^1\) depreciation, it is now about a 3% position as of quarter-end. In April, NexPoint announced a program to repurchase 10% of its shares, and it offers a 14% yield at current prices. In June, the fund announced plans to convert to a Diversified REIT, which we believe could result in the unlocking of its substantial value. Back in 2015, NHF spun off a REIT from its portfolio (ticker: NXRT) which has more than doubled, so there is some basis for optimism.

Top Detractor #2
RMR Mortgage Trust (RMRM) detracted 30 basis points from our third quarter return. RMRM began the quarter at a 30.7% discount to NAV\(^1\) and ended the quarter at a 46.2% discount. The underlying NAV\(^1\) of this position appreciated 1% during the quarter. Discount widening combined with the underlying NAV\(^1\) movement resulted in a loss of 21% during the quarter. RMRM was a 1.5% position in our strategy to start the quarter and is now about a 1.1% position as of quarter-end. Like NHF above, we believe a possible REIT conversion (to a Mortgage REIT in this case) could ultimately benefit RMRM’s trading price relative to its NAV\(^1\). Since RMRM is invested primarily in publicly traded REITs today, its transition to a Mortgage REIT could allow it to purchase and originate property-backed mortgages on attractive “COVID terms”.

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Notable Portfolio Changes

Our largest new position during the quarter was Tetragon Financial Group (TFG NA), a London and Amsterdam-listed closed-end fund. The fund primarily invests in asset managers and the strategies they run, where it typically takes majority ownership in a small firm. TFG NA also has some direct investments in CLOs, real estate, equities, infrastructure and private equity. Co-founders Reade Griffith, Paddy Dear, and their team identify asset classes with the potential for 10-15% ROE, find managers in those areas with demonstrated success (often small teams leaving larger firms and looking for seed capital), and then negotiate terms and structure for investing in both the strategies and the managers themselves. The fund can therefore benefit not only from the appreciation of underlying assets, but also from the management or performance fees stemming from those managers' success in gathering external assets under management. Since its initial public offering in 2007, Tetragon has achieved a double-digit annualized at-NAV¹-return. It pays a regular dividend, buys back shares opportunistically, and is over 30% owned by its employees.

We purchased TFG NA in late August when it was trading at a 63% discount to NAV¹. The NAV¹ is somewhat subjective, given about 30% of it is the carrying value of Tetragon’s equity stakes in its constituent investment teams. In our analysis, this carrying value is reasonable, at about 9x EBITDA (counting only fees on the $27 billion of the managers’ $28 billion AUM that comes from entities other than Tetragon). The median EBITDA multiple among publicly traded asset managers today is approximately 9x (and the S&P 500⁶ trades at 16x). Eaton Vance was just bought out (announced) at 15x, and Tetragon itself has sold a few of its internally-grown asset managers in the past at higher multiples. There are still risks (primarily liquidity and the loss or failure of one or more of the underlying teams), but we feel Tetragon offers upside (both NAV¹ and discount) at a risk level measurably lower than stocks.

Our two largest outright closed-end fund sales during the quarter were Brookfield Real Assets Income Fund (RA) and Adams Natural Resources Fund (PEO). We purchased RA during March and April at an average 25% discount to NAV¹ and then sold in late July and early August at an average 13% discount, for a total return (including NAV¹ appreciation) of over 40%. The primary reason for the sale of RA was to swap out the position for another, more attractive opportunity. PEO was purchased in March and April at an average 16% discount to NAV¹ and then sold in September at a single-digit discount, for a total return (including NAV¹ appreciation) of over 30%. Similarly, the primary reason for the sale of PEO was to swap out the position for another, more attractive opportunity. Most of our shares were sold back to the fund company, which tendered for shares at a 5% discount to NAV¹ in response to activist pressure. In addition, we sold our position in PCEF (which is an ETF of closed-end funds). We purchased PCEF in March and April and then sold in August for an approximate 30% gain.
Objective
The Matisse Discounted Closed-End Fund Strategy Composite seeks to provide investors with total return consisting of income with modest long-term capital appreciation.

Outlook
Matisse Capital views closed-end funds as a unique opportunity where an investor can purchase a diversified fund and potentially generate additional returns through a change in the relationship between a closed-end funds’ market price and its Net Asset Value (NAV)\(^1\).

Strategy
1. Invests in closed-end funds that invest in both equity and fixed income securities.
2. Opportunistic trading strategy that attempts to take advantage of both short-term and long-term changes in a fund’s discount or premium to its NAV\(^1\).
3. Uses both a proprietary quantitative screening process and qualitative analysis.

Asset Allocation

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Asia Equity</td>
<td>15%</td>
</tr>
<tr>
<td>Greater Europe Equity</td>
<td>4%</td>
</tr>
<tr>
<td>Non-U.S. Americas Equity</td>
<td>15%</td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>31%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>14%</td>
</tr>
<tr>
<td>Cash</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
</tr>
<tr>
<td>Not Classified</td>
<td>3%</td>
</tr>
</tbody>
</table>

Equity Cap Allocation

<table>
<thead>
<tr>
<th>Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Giant</td>
<td>27%</td>
</tr>
<tr>
<td>Large</td>
<td>30%</td>
</tr>
<tr>
<td>Medium</td>
<td>26%</td>
</tr>
<tr>
<td>Small</td>
<td>11%</td>
</tr>
<tr>
<td>Micro</td>
<td>6%</td>
</tr>
</tbody>
</table>

Top Ten Holdings

1. Pershing Sq Hldgs     9.02%
2. Third Point Investors USD Ord 5.51%
3. MS China A Share 4.86%
4. Adams Diversified Equity Fund 4.42%
5. Highland Income Fund 3.82%
6. Tetragon Financial Ord 3.67%
7. Central Securities Corporation 3.53%
8. MS Emerging Markets Domestic 3.46%
9. NexPoint Strategic Opportunities Fund 3.07%
10. ASA Gold and Precious Metals 3.03%

Current and future holdings are subject to change. Asset Allocation, Equity Cap Allocation, and Top Ten Holdings numbers were obtained and are available through Morningstar. Asset Allocation and Equity Allocation pie chart data may not sum to 100% due to rounding.
The price at which a closed-end fund trades often varies from its NAV. A fund is said to be trading at a discount when its market price is below its NAV. Alternatively, a fund is said to be trading at a premium when its market price is above its NAV.

Matisse Capital (Deschutes Portfolio Strategy, LLC) is the advisory firm to the Matisse Discounted Closed-End Fund Strategy Composite. 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.

The benchmarks referenced are included to reflect the general trend of the markets during the periods indicated and are not intended to imply that the underlying returns were comparable to the market indices either in composition or element of risk. There are significant differences between client accounts and the indices herein including, but not limited to, risk profile, liquidity, volatility, and asset composition.

Inception date for the Matisse Discounted Closed-End Fund Strategy Composite was 12/30/2005.

S-Network Composite Closed-End Fund Total Return Index: This fund index is designed to serve as a benchmark for closed-end funds listed in the US that principally engage in asset management processes seeking to produce taxable annual yield. The index employs a modified net assets weighting methodology designed to assure accurate investment exposure across the various style segments that together comprise the taxable yield sector of the closed-end fund market.

S&P 500® Index: (registered trademark of The McGraw-Hill Companies, Inc.) is an unmanaged index of 500 common stocks primarily traded on the New York Stock Exchange, weighted by market capitalization. Index performance includes the reinvestment of dividends and capital gains.

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Strategy Advisor

Matisse Capital
4949 Meadows Road
Suite 200
Lake Oswego, OR 97035
503-210-3000
www.matissecap.com