Closed-End Fund Market Update
April 2020

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Matisse CAPITAL

Performance Highlights[1,2]

Performance (as of 3.31.2020)	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception (01.01.2006)
Matisse Discounted CEF Strategy	-35.5%	-35.5%	-29.6%	-6.1%	-1.3%	4.0%	5.5%
S-Network Composite CEF Index	-23.0%	-23.0%	-14.3%	-1.5%	2.1%	4.5%	4.8%
S&P 500 Total Return Index	-19.6%	-19.6%	-7.0%	5.1%	6.7%	10.5%	7.5%

In This Issue:

COVID-19 and CEFs – Shooting Fish in a Barrel?

COVID-19, on everyone's mind, was the chief culprit of the stock market's first quarter decline. We experienced the fastest bear market decline (-35%) ever in 36 days, destroying industrial and consumer demand in virtually everything, from the oil market to most cyclical companies. To no one's surprise (except for the speed of the decline), most Closed-End Funds (CEFs) were trapped in this environment with the double whammy of sharply declining NAVs and discounts widening out as fear overwhelmed the markets (yes, retail holders panicked again). To make matters worse, our strategy's exposure to good income and relatively safe "pipeline" energy MLPs was higher than normal, accounting for the difference between our performance and the relative index of CEFs. However, we are optimistic going forward as we've been here before, with the most recent comparison being 2008.

As a refresher, our strategy focuses on investing in CEFs that are trading at substantial discounts relative to their underlying net asset values. We believe individual CEF discounts fluctuate around a long-term mean, and we target CEFs whose current discounts are wider (more discounted) than their historical average discounts. It's our view that investments in CEFs with these types of characteristics can allow our investors to profit from (1) the income generated from CEF distributions and (2) the capital appreciation achieved when such discounts narrow.

As of quarter-end 3/31/2020 (Source: Matisse Capital):

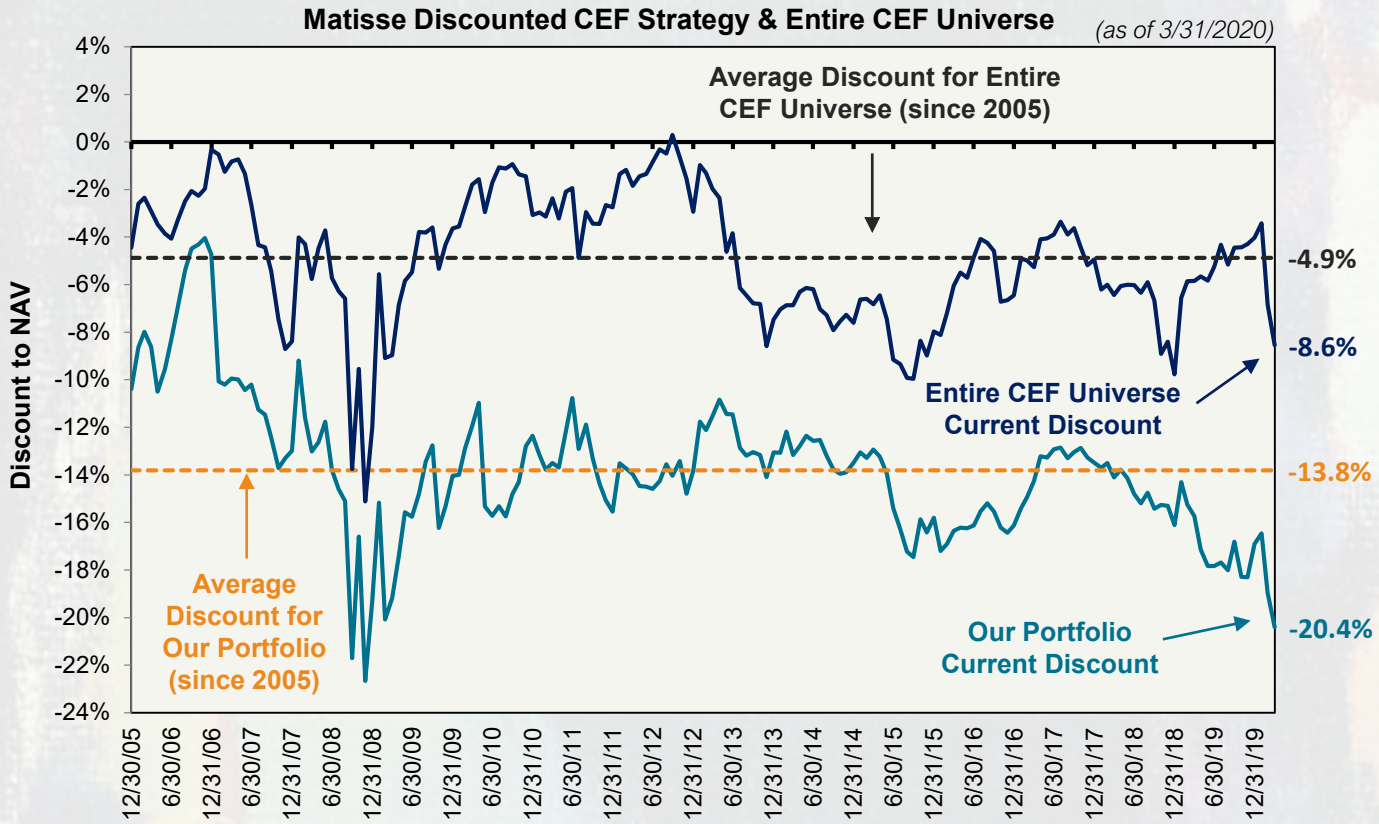
- 88% of CEFs were trading at a wider discount than their 52-week average discount.
- 80% of CEFs were trading at a wider discount than their 10-year average discount.

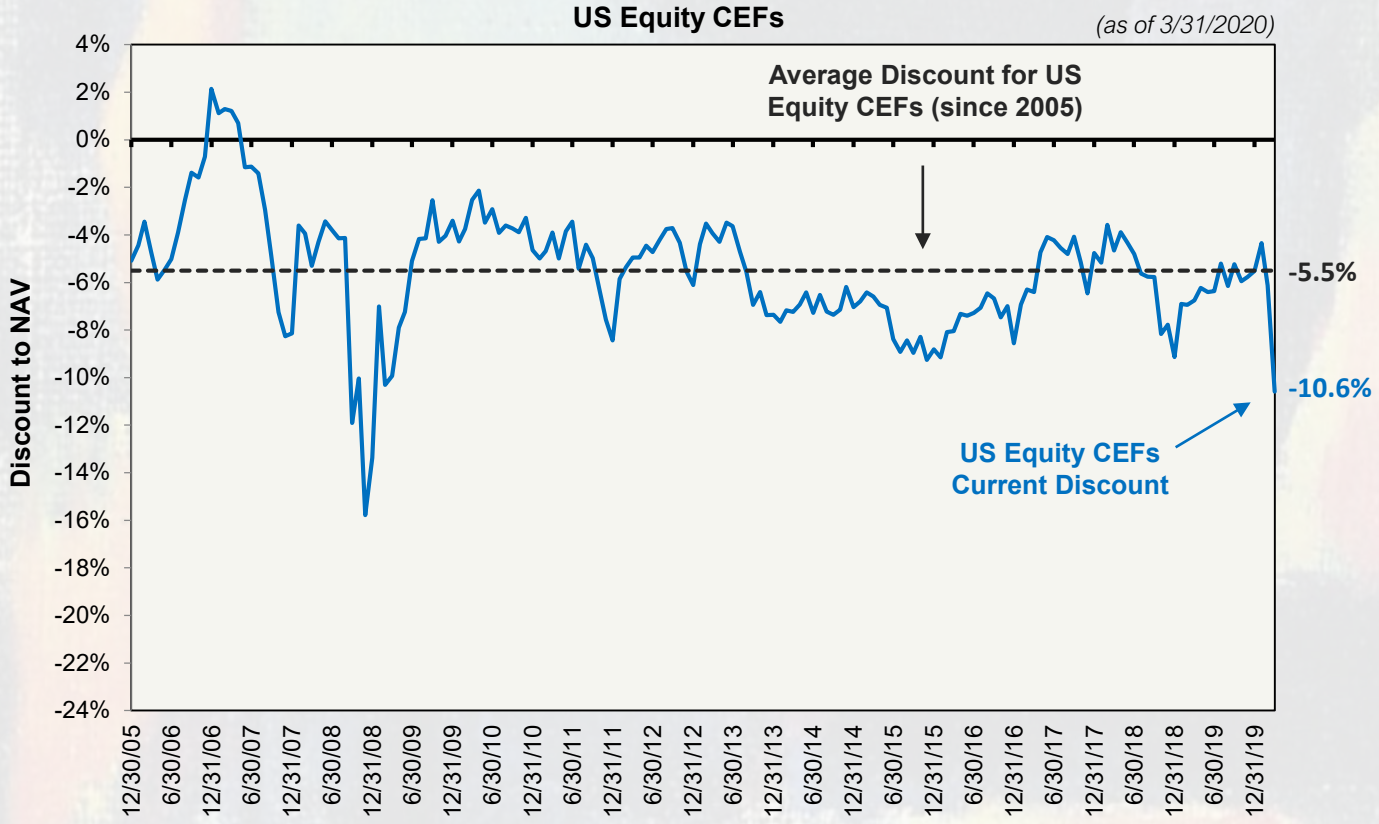
At some point during March, **99% of all US-traded CEFs traded at a wider discount than their long-term average discount**. At its most discounted, the median CEF traded 17 percentage points below its respective long-term average discount! This is an unprecedented discount environment, and we haven't seen anything close to it since 2008-09. In our opinion, there is an unusually high amount of attractive investment opportunities today in the CEF space. While we can't predict the future or guarantee future performance, we believe we are in a position to potentially deliver strong, positive returns going forward once the market begins to normalize.

To help demonstrate the significance of the CEF discounts we are seeing, we've included several of our *Historical CEF Discounts* charts on the following pages, and noted a few highlights below:

- As of 3/31/20, discounts on US Equity CEFs stood at 8.6% on average (about 4 percentage points wider than their since-2006 average).
- **Our portfolio was 20.4% discounted on average** (as compared to our 13.8% average portfolio discount since the inception of our strategy; 1/1/2006). **This is the biggest month-end average discount in our portfolio since 2008.**
- Broadly speaking, right now the most attractive CEF sector as a group is International Equity, but we are seeing an abundance of opportunities in taxable bond CEFs, municipal bond CEFs, and small-cap equity CEFs.
- Bill Ackman of Pershing Square managed his CEF (PSH) brilliantly with hedges, avoiding NAV depreciation during the quarter, but at the same time investors panicked, creating a great opportunity to own more of his fund at a significant discount to NAV.

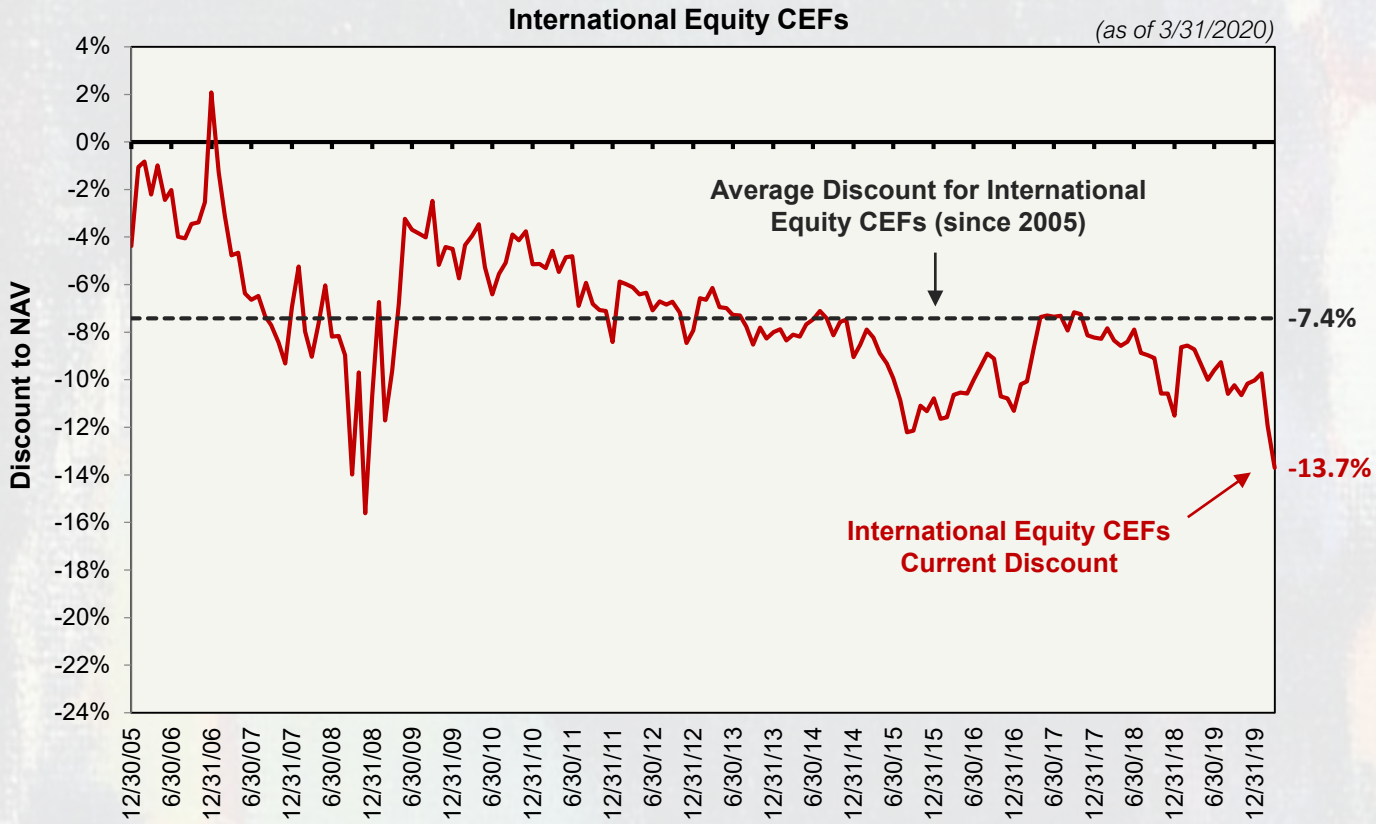
Historical CEF Discounts

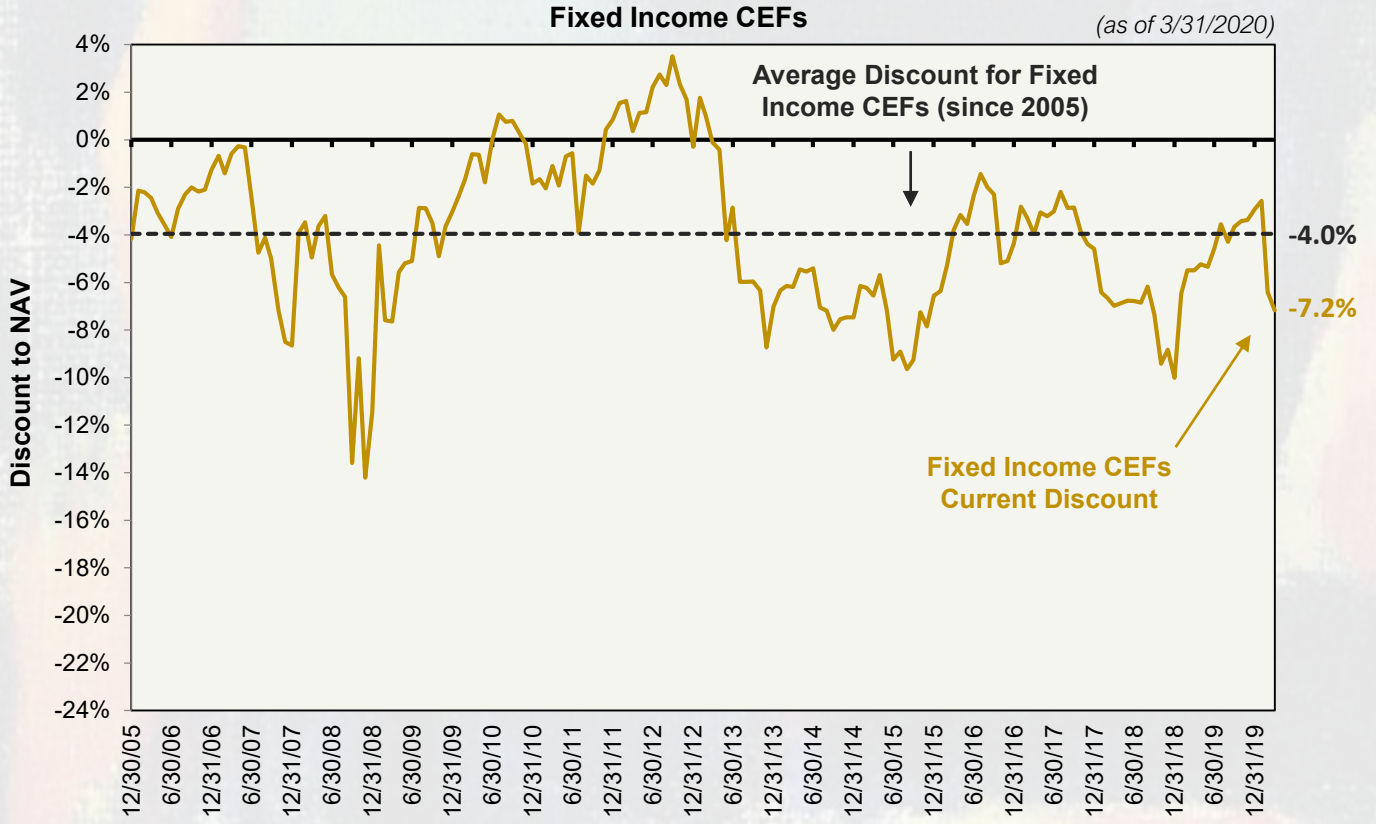




Source: Matisse Capital

Historical CEF Discounts Continued





Source: Matisse Capital

What's Happening at Matisse:

MATISSE DISCOUNTED BOND CEF STRATEGY

The Matisse Discounted Bond CEF Strategy is now available to qualified outside investors and clients, through separately managed accounts and a newly launched publicly traded mutual fund. For more information, please send a request to info@matissecap.com.

OREGON BUSINESS MAGAZINE BRAND STORY

Our firm was featured in the April 2020 issue of Oregon Business Magazine. Click here to read the article.

BARRON'S ARTICLE

Bryn Torkelson was recently featured in Barron's in *"Muni Bonds Have Started to Rally. Why You Should Get on Board — and Where to Find Bargains"*. Click here to read the article.

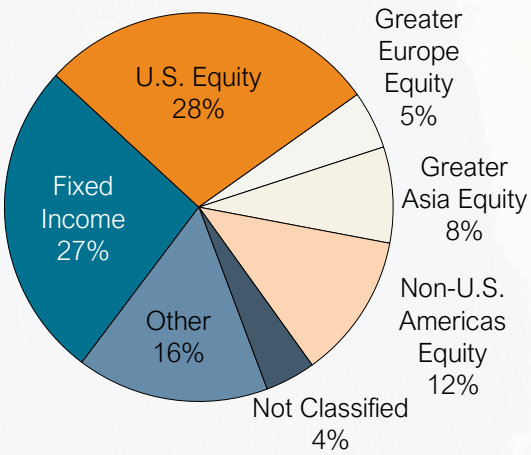
MONEY LIFE WITH CHUCK JAFFE PODCAST

Eric Boughton, CFA was recently featured on the Money Life with Chuck Jaffe podcast. Click here to listen to the podcast.

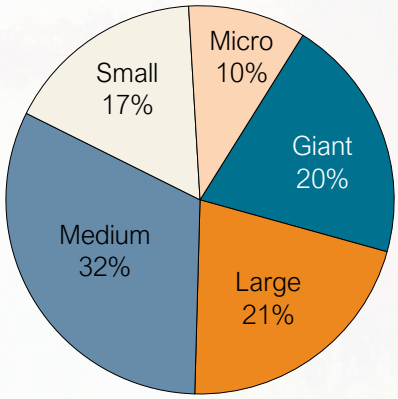
Portfolio Composition:

TYPICAL ACCOUNT LOOKTHROUGH ALLOCATION 3.31.20

Asset Allocation



Equity Cap Allocation



TOP 10 HOLDINGS 3.31.20

Source: Morningstar®[3]

Pershing Sq Hldgs	Highland Income Fund	NexPoint Strategic Opportunities Fund	Aberdeen Asia-Pacific Income	Invesco CEF Income Composite ETF
VanEck Vectors High-Yield Municipal ETF	PIMCO Energy & Tactical Credit Opps	Calamos L/S Equity & Dynamic Inc Trust	Tortoise Essential Assets Income Term	Central Securities Corporation

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.

[2]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. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks chosen for market size, liquidity and broad industry group representation within the U.S. economy. Index returns represent gross returns, and are provided to represent the investment environment during the time periods shown and are not covered by the report of the independent verifiers.

[3]Matisse Capital is not affiliated or endorsed by Morningstar, Inc. Morningstar® has placed our publicly traded mutual fund into its Tactical Allocation category.

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Matisse Capital is the investment advisor to the Matisse Discounted Closed-End Fund Strategy mutual fund (MDCEX). This newsletter does not constitute an offer to sell or a solicitation of an offer to buy shares of the Fund in any jurisdiction in which such offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. An investor should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. The prospectus should be read carefully before investing. A copy of the prospectus is available online at www.ncfunds.com or by calling Shareholder Services at 1-800-773-3863.

For More Information:

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