

3<sup>rd</sup> Quarter 2020 Fund Commentary

## Matisse Discounted Bond CEF Strategy (MDFIX)

September 30<sup>th</sup>, 2020

**Investment Objective:** Matisse Discounted Bond CEF Strategy (MDFIX) is an open-end mutual fund incorporated in the USA. The Fund seeks to provide investors with total return with an emphasis on providing current income.

Most Recent Quarter-End Performance (as of September 30th, 2020)	1-Month	QTD	YTD	Since Inception <sup>1</sup>
MDFIX	0.00%	5.65%	N/A	13.80%
Bloomberg Barclays US Aggregate Bond Index <sup>2</sup>	-0.05%	0.62%	6.79%	1.72%
Bloomberg Barclays VLI High Yield Index <sup>3</sup>	-1.16%	4.54%	-0.08%	9.35%
FT Taxable Fixed Income CEF Index <sup>4</sup>	-0.77%	5.45%	-7.19%	14.03%

*The Total Annual Fund Operating Expense for the Fund as disclosed in the prospectus is 3.24% dated April 3, 2020. For a detailed description of Fund expenses, please see the Annual Fund Operating Expenses table on page 7. Returns longer than one year are annualized. The performance information quoted represents past performance, which is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For performance current to most recent month-end, please send a request to [info@matissefunds.com](mailto:info@matissefunds.com), or call Shareholder Services at 1-800-773-3863.*

## Management Outlook

Given the recent positive news on Pfizer's COVID-19 vaccine trial, we believe an economic recovery is inevitable in both US and global markets (it's already happening in China). The recovery could be slow and in a "grinding fashion" as Minneapolis Fed President Neel Kashkari said in a Fed policy meeting during late September. If the economic recovery does prove to be slow and methodical, we believe MDFIX is well positioned as the credit quality of existing stressed credit market assets should improve, the potential yield advantage of MDFIX could stretch out over several years, and MDFIX could potentially achieve higher returns than other fixed income alternatives. We also believe the Fed will remain very accommodative over an extended period.

Income investors are facing a major dilemma in today's low interest rate world, where most traditional fixed income investments are generating historically low yields. As of quarter-end, most money market mutual funds yield between 0.00% and 0.10%, the typical 5-year CD yields between 0.30% and 0.60%, and the 10-year US treasury bill yields 0.69%. As our investors know, fixed income closed-end funds are valued for their ability to generate steady cash distribution income. While no level of income is guaranteed, the average fixed income closed-end fund's 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. The current 30-day SEC yield for MDFIX amounts to 4.87% as of quarter-end (which is different from the indicated cash distribution rate of MDFIX's underlying portfolio of 7.0%). The reality is investors are going to continue to seek out yield, and we believe the Fixed Income closed-end fund universe is full of untapped opportunities. Our management team remains optimistic going forward. Our target for the Fund is to achieve annualized cash distributions of 6% to 7%, and we believe our opportunistic discount trading could potentially add another 2% to 3% in total return annually.

## Credit Quality

The weighted average credit rating of MDFIX's underlying portfolio (on a look through basis) is BBB- as of quarter-end. We generally plan to maintain an investment grade portfolio on average (although there is no guarantee this can be maintained). As an interesting item of note, Morningstar reports that MDFIX's underlying portfolio (on a look through basis) is BB as of quarter-end. As we've researched the reasons for the discrepancy, we've found that Morningstar treats unrated bonds as if they carry a very low credit rating. Morningstar also applies a methodology that treats lower-rated bonds as if they have a higher weighting in a portfolio than higher-rated bonds do. For example, if a closed-end fund has two-thirds of its portfolio in A rated bonds and one-third in B rated bonds, our methodology would assign a BBB rating to that portfolio while Morningstar's methodology might assign a BB rating.

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### Management Outlook Continued

As of quarter-end, the underlying portfolio for MDFIX was approximately 24% Municipal Bond / 27% Foreign Bond / 49% US Taxable Bond, diversified across 53 closed-end funds (and subsequently thousands of individual bonds on a look through basis). In our opinion, the best opportunities at the margins are currently in Bank Loan closed-end funds, but we are finding attractively discounted closed-end funds across the entire Fixed Income closed-end fund universe. As of quarter-end, the indicated cash distribution rate on our weighted average holding was 7.0%, at a weighted average 15.0% discount to NAV<sup>5</sup>.

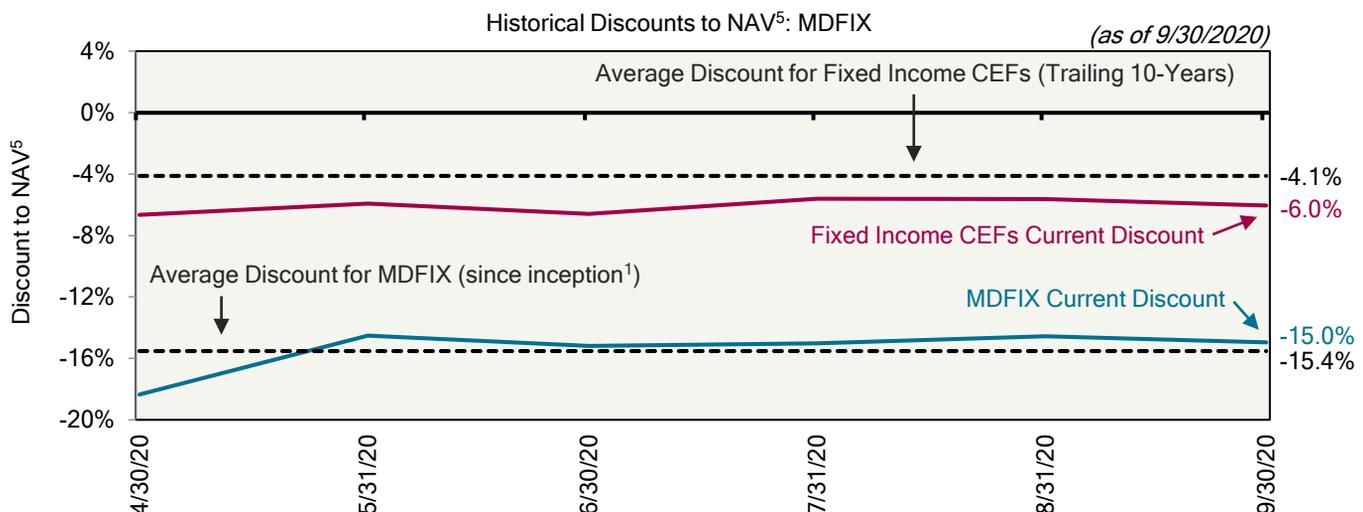
We don't plan on entering positions with a quick turnaround in mind; yet capturing beneficial discount movement (if it occurs) is a key alpha engine for the Fund (in combination with any extra income that comes from purchasing closed-end funds at a discount to NAV<sup>5</sup>, and underlying NAV<sup>5</sup> outperformance). Note these factors can also work in the opposite direction at times, and no alpha generation is guaranteed.

During the quarter, our closed-end fund sales (including a few tenders back to the closed-end fund issuers) totaled about \$600,000, which would currently annualize at about a 20% turnover rate. As a relatively new fund, MDFIX is still in its asset growth phase which naturally helps limit turnover. The Fund's sales occurred at a weighted average 7.5% discount to NAV<sup>5</sup>, compared to the Fund's previous purchases of these same closed-end funds at a weighted average 13.3% discount to NAV<sup>5</sup>. Closed-end fund purchases during the quarter totaled approximately \$10.3 million, at a weighted average discount to NAV<sup>5</sup> of 15.2%.

### Current Market Environment

The average discount for all fixed income closed-end funds slightly narrowed during the quarter. As of quarter-end, the average discount on all fixed income closed-end funds stood at 6.0%, compared to its trailing 10-year average discount of 4.1%. Municipal Bond closed-end funds current average discount is 6.0% (compared to a trailing 10-year average discount of 4.0%). Taxable Bond closed-end funds current average discount is 6.1% (compared to a trailing 10-year average discount of 4.3%).

As noted above, right now we believe the most attractive Fixed Income closed-end fund sector as a group is Bank Loan closed-end funds (which trade at a current average discount of 12.0% compared to their trailing 10-year average discount of 6.3%). We believe there are great opportunities in this sector, considering that High Yield closed-end funds currently trade at an attractive (but more normalized) discount of 8.5%. In many cases, the credit quality of a typical Bank Loan closed-end fund is higher, with better asset protection.

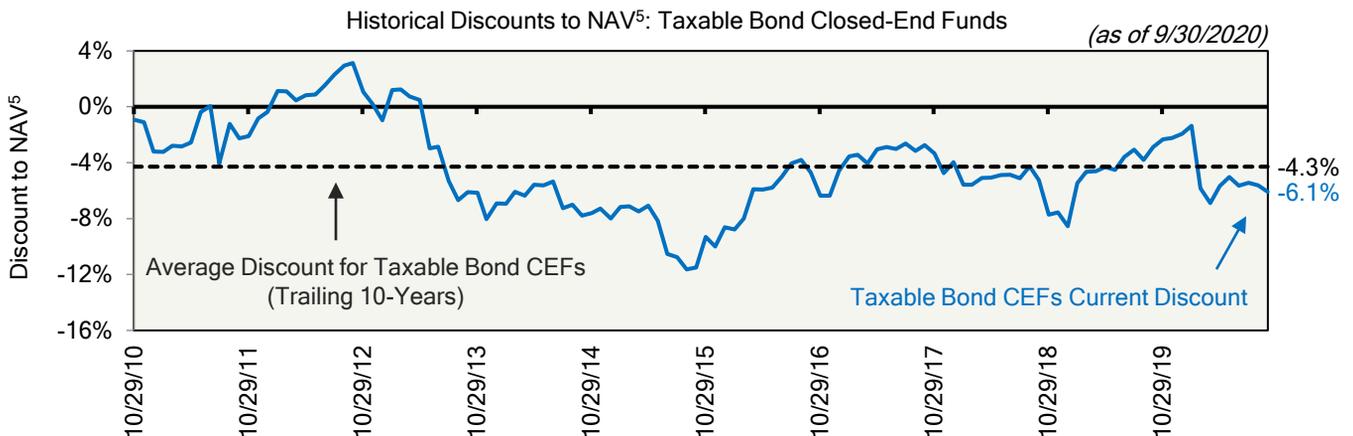
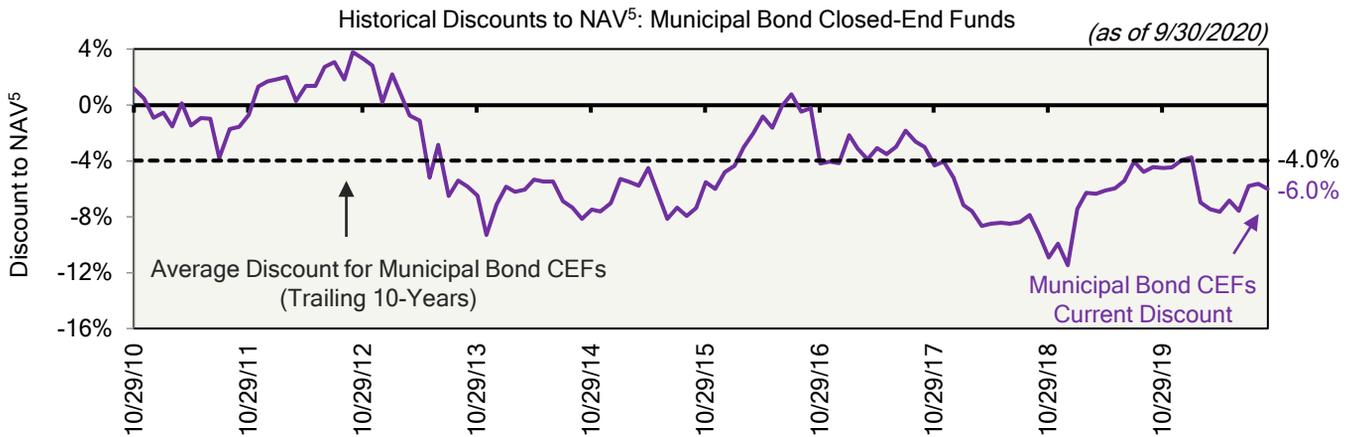
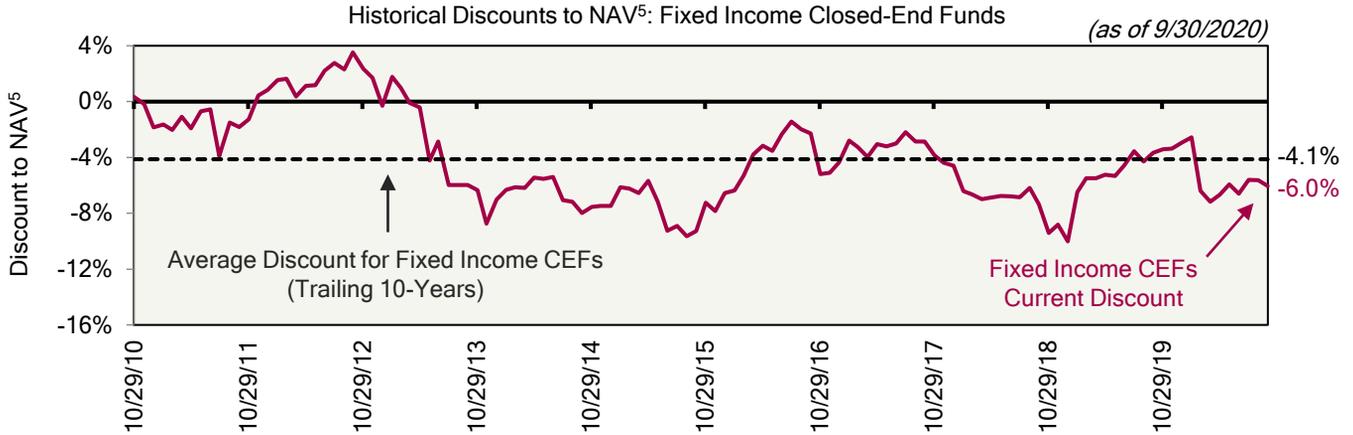


Source: Matisse Capital

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## Matisse Discounted Bond CEF Strategy (MDFIX)

### Current Market Environment Continued



Source: Matisse Capital

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# Matisse Discounted Bond CEF Strategy (MDFIX)

### Performance Contributors and Detractors

#### Top Contributor #1

Highland Income Fund (HFRO) contributed 34 basis points to our third quarter return. It began the quarter at a 35.7% discount and ended the quarter at a 32.5% discount. The underlying NAV<sup>5</sup> of this position appreciated 3.5% during the quarter. Discount narrowing combined with the underlying NAV<sup>5</sup> movement resulted in a gain of 9.7% during the quarter. HFRO was 3.6% position in MDFIX to start the quarter, and it remains a 3.6% of MDFIX as of quarter-end.

HFRO has paid a steady monthly cash distribution which amounts to 7% annually at NAV<sup>5</sup>, but this cash distribution equates to 11% annually at HFRO's current discount level (although no particular cash distribution level is guaranteed).

HFRO converted from an open-end fund to a closed-end fund in 2017, has been buying back shares over the past year, and could benefit from the resolution of a legal matter that dates back to the Great Recession.

#### Top Contributor #2

Aberdeen Asia-Pacific Income (FAX) contributed 32 basis points to our third quarter return. It began the quarter at a 16.4% discount and ended the quarter at a 14.0% discount (both of which are high compared to FAX's average 9.0% discount over the past decade). The underlying NAV<sup>5</sup> of this position appreciated 3.6% during the quarter. Discount narrowing combined with the underlying NAV<sup>5</sup> movement resulted in a gain of 6.9% during the quarter. FAX was 3.6% position in MDFIX to start the quarter, and it is now 2.8% of MDFIX as of quarter-end.

FAX has paid a steady monthly cash distribution which amounts to 7% annually at NAV<sup>5</sup>, but this cash distribution equates to 8% annually at FAX's current discount level (although no particular cash distribution level is guaranteed).

In our opinion, non-US bonds are well positioned to benefit from US dollar weakness, which (if it occurred) would reverse a decade-plus trend and begin to address the very high level that the US dollar commands relative to its purchasing power parity with most other currencies.

#### Top Detractor #1

Templeton Emerging Markets Income (TEI) detracted 15 basis points from our third quarter return. TEI began the quarter at a 12.9% discount to NAV<sup>5</sup> and ended the quarter at a 16.3% discount. The underlying NAV<sup>5</sup> of this position depreciated 0.4% during the quarter. Discount widening combined with the underlying NAV<sup>5</sup> movement resulted in a loss of 4.0% during the quarter. TEI was a 3.6% position in MDFIX to start the quarter, and it is now about a 3.7% position as of quarter-end.

#### Top Detractor #2

MS Emerging Markets Debt (MSD) detracted 14 basis points from our third quarter return. We purchased MSD during August and September at a weighted average 15.9% discount to NAV<sup>5</sup> and it ended the quarter at a 16.5% discount. The underlying NAV<sup>5</sup> of this position depreciated between 2% and 3% from our average purchase price. Discount widening combined with the underlying NAV<sup>5</sup> movement resulted in an approximate loss of 4.0% over the holding period. MSD is now about a 3.7% position in MDFIX as of quarter-end (our largest holding) and we remain confident in its outlook.

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# Matisse Discounted Bond CEF Strategy (MDFIX)

### Notable Portfolio Changes

Our largest new position during the quarter was MS Emerging Markets Debt (MSD). We purchased the position during August and September at a weighted average 15.9% discount to NAV<sup>5</sup>. As previously noted, MSD was our second largest detractor in terms of performance during the quarter. However, as previously noted we believe non-US bonds are well positioned to benefit from US dollar weakness, which (if it occurred) would reverse a decade-plus trend and begin to address the very high level that the US dollar commands relative to its purchasing power parity with most other currencies.

Our second largest new position during the quarter was EV Short Duration Diversified (EVG). We purchased the position in August at a 14.0% discount to NAV<sup>5</sup> (compared to its average 9.0% discount over the past decade). After quarter-end, Eaton Vance (the management company, and not the closed-end fund) announced it was being acquired by Morgan Stanley. We believe the acquisition could lead to positive changes for Eaton Vance closed-end funds, as they may be forced to offer concessions (share buybacks, increased distributions, tenders, etc.) in order to entice shareholders to vote for the change of advisory contracts over to Morgan Stanley.

Our largest outright closed-end fund sale during the quarter was Invesco CA Value Muni Income (VCV). We purchased VCV during June at an average 11.4% discount to NAV<sup>5</sup> and then sold in August at an average 7.9% discount. The primary reason for the sale of VCV was to swap out the position for another, more attractive opportunity. Although we do not aim to take short-term positions in MDFIX, when discounts narrow quickly and significantly, we are usually willing to capture that discount movement by exiting the position and moving on to the next investment opportunity (further highlighting the opportunistic nature of the Fund's strategy).

### Fund Advisor

Matisse Capital  
4949 Meadows Road  
Suite 200  
Lake Oswego, OR 97035

503-210-3000

[www.matissefunds.com](http://www.matissefunds.com)

### Investor Services

Nottingham Shareholder Services  
116 South Franklin Street  
Post Office Drawer  
Rocky Mount, NC 27803

1-800-773-3863

[shareholders@ncfunds.com](mailto:shareholders@ncfunds.com)



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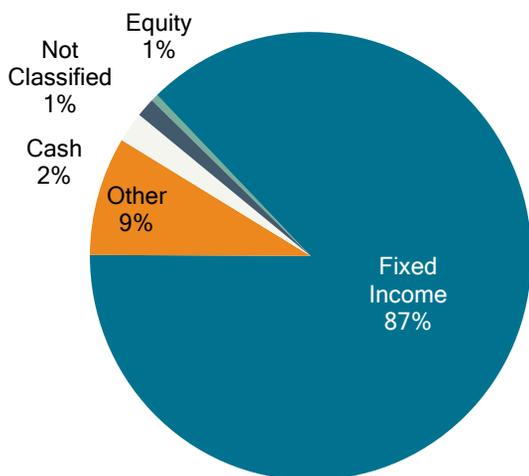
### Fund Information

**Objective** Matisse Discounted Bond CEF Strategy (MDFIX) is an open-end mutual fund incorporated in the USA. The Fund seeks to provide investors with total return with an emphasis on providing current income.

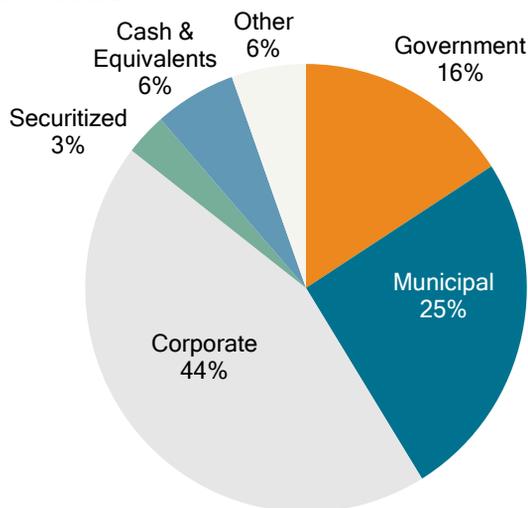
**Outlook** Matisse Funds views closed-end funds as a unique opportunity where an investor can purchase a diversified fund and potentially generate additional returns through a change in the relationship between a closed-end funds' market price and its Net Asset Value (NAV)<sup>5</sup>.

- Strategy**
1. Invests in closed-end funds that invest in 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<sup>5</sup>.
  3. Uses both a proprietary quantitative screening process and qualitative analysis.

### Asset Allocation



### Sector Allocation



### Top Ten Holdings

	<u>% Weight</u>
1. MS Emerging Markets Domestic	3.71%
2. Invesco Dynamic Credit Opps	3.69%
3. Templeton Emerging Markets Income	3.66%
4. MS Emerging Markets Debt	3.66%
5. Highland Income Fund	3.64%
6. Apollo Senior Floating Rate	3.59%
7. Apollo Tactical Income	3.35%
8. First Eagle Senior Loan Fund	3.30%
9. EV Short Duration Diversified	3.29%
10. Western Asset Emerg Mkts Debt	3.29%

### Fixed Income Measures

	<u>MDFIX</u>
Effective Duration	6.31
Modified Duration	6.49
Effective Maturity	9.16
Weighted Coupon	5.41
Weighted Price	102.36
Yield	—

### Credit Quality %

	<u>MDFIX</u>
AAA	10.53%
AA	13.93%
A	9.68%
BBB	15.01%
BB	15.79%
B	22.29%
Below B	5.90%
Not Rated	6.87%

*Current and future holdings are subject to change. Asset Allocation, Sector Allocation, Top Ten Holdings, Fixed Income Measures, and Credit Quality % were obtained and are available through Morningstar. Pie chart data may not sum to 100% due to rounding.*

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## Matisse Discounted Bond CEF Strategy (MDFIX)

## Annual Fund Operating Expenses

Expense	MDFIX	Expense Description
Advisor Management Fees	0.70%	The Advisor (Matisse Capital) receives a monthly management fee equal to a maximum of 0.70% of the Fund's net assets.
Distribution and/or Service (12b-1) Fees	None	Fees paid out of the Fund to cover the costs of distribution (marketing and selling shares of the Fund). The Fund has no fees related to distribution and/or service (12b-1).
Other Expenses	0.92%	Expenses related to the operation of the Fund, including professional fees, administration fees, registration and filing expenses, Fund accounting fees, transfer agent fees, custody fees, shareholder fulfillment expenses, compliance fees, trustee fees and meeting expenses, miscellaneous expenses, security pricing fees, and insurance fees. The Advisor (Matisse Capital) does not collect any of these fees.
Less Fee Waiver and/or Expense Limitation	<u>(0.63)%</u>	The total amount of Advisor Management Fees, Distribution and/or Service (12b-1) Fees, and Other Expenses cannot exceed 0.99%, per the Fund's Expense Limitation Agreement. These expenses are direct cash expenses to an investor in the Fund. Any fees above 0.99% are waived and credited back.
Cash Expense Limit	<b>0.99%</b>	The total direct cash expense to an investor in the Fund. The cash expense limit is capped at 0.99%, per the Fund's Expense Limitation Agreement.
Acquired Fund Fees and Expenses	<u>1.62%</u>	The operating expenses of the Fund's underlying investments in closed-end funds and other investment companies. These fees are not a cash expense of the Fund. The Advisor (Matisse Capital) does not collect any of these fees. Acquired Fund Fees and Expenses do not affect a Fund's actual operating costs, and therefore are not included in the Fund's financial statements, which provide a clearer picture of a Fund's actual operating costs. The operating expenses in this fee table will not correlate to the expense ratio in the Fund's financial statements, once available, because the financial statements include only the direct operating expenses incurred by the Fund.
<b>Total Annual Fund Operating Expenses</b>	<b>3.24%</b>	The Fund's costs as a percentage of the Fund's total assets, before any fee waiver and/or expense limitation. The Total Annual Fund Operating Expense is required to include Acquired Fund Fees and Expenses. The Advisor (Matisse Capital) receives a monthly management fee equal to a maximum of 0.70% of the Fund's net assets.
<b>Net Annual Fund Operating Expenses</b>	<b>2.61%</b>	The Fund's costs as a percentage of the Fund's total assets, after any fee waiver and/or expense limitation. The Net Annual Fund Operating Expense is required to include Acquired Fund Fees and Expenses. The Advisor (Matisse Capital) receives a monthly management fee equal to a maximum of 0.70% of the Fund's net assets.

**The Total Annual Fund Operating Expense for the Fund as disclosed in the prospectus is 3.24% dated April 3, 2020. The Net Operating Expense for the Fund is 2.61%.** The Total Annual Fund Operating Expense is required to include expenses incurred indirectly by the Fund through its investments in closed-end funds and other investment companies. The Advisor has entered into an expense limitation agreement with the Fund under which it has agreed to waive or reduce its management fees and assume other expenses of the Fund in an amount that limits the Fund's Total Annual Fund Operating Expenses (exclusive of (i) any front-end or contingent deferred loads; (ii) brokerage fees and commissions, (iii) acquired fund fees and expenses; (iv) fees and expenses associated with investments in other collective investment vehicles or derivative instruments (including, for example, option and swap fees and expenses); (v) borrowing costs (such as interest and dividend expense on securities sold short); (vi) taxes; and (vii) extraordinary expenses, such as litigation expenses (which may include indemnification of Fund officers and Trustees and contractual indemnification of Fund service providers (other than the Advisor)) to not more than 0.99% of the average daily net assets of the Fund. This contractual arrangement is in effect through July 31, 2021, unless earlier terminated by the Board of Trustees of the Fund (the "Board" or the "Trustees") at any time. "Acquired Fund Fees and Expenses" include expenses incurred indirectly by the Fund through its investments in closed-end funds and other investment companies, do not affect a Fund's actual operating costs, and therefore are not included in the Fund's financial statements, which provide a clearer picture of a Fund's actual operating costs. The Advisor cannot recoup from the Fund any amounts paid by the Advisor under the Expense Limitation Agreement.

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## Matisse Discounted Bond CEF Strategy (MDFIX)

	Ticker	CUSIP	Load Type	Inception <sup>1</sup>	Redemption Fee
I Class	MDFIX	85521B833	No Load	4/30/2020	None

### Important Disclosures

An investment in the Fund is subject to investment risks, including the possible loss of some or all of the principal amount invested. There can be no assurance that the Fund will be successful in meeting its investment objective. Generally, the Fund will be subject to the following additional risks: Closed-End Fund Risk, Fund of Funds Risk, Control of Portfolio Funds Risk, Fixed Income Securities Risk, Credit Risk, Interest Rate Risk, Junk Bond Risk, Prepayment Risk, Derivatives Risk, COVID-19 and Other Infectious Illnesses Risk, Convertible Securities Risk, Cybersecurity Risk, Equity Securities Risk, Foreign Securities Risk, General Investment Risks, Investment Advisor Risk, Quantitative Model Risk, Leverage Risk, Limited History of Operations Risk, Loans Risk, Management Style Risk, Market Risk, Money Market Mutual Fund Risk, and Portfolio Turnover Risk. More information about these risks and other risks can be found in the Fund's prospectus.

*The Matisse Discounted Bond CEF Strategy is distributed by Capital Investment Group, Inc., Member FINRA/SIPC, 100 E Six Forks Road, Suite 200, Raleigh, NC 27609. There is no affiliation between Deschutes Portfolio Strategies, LLC, including its principals, and Capital Investment Group, Inc.*

<sup>1</sup>Inception date for MDFIX was 4/30/2020.

<sup>2</sup>Bloomberg Barclays US Aggregate Bond Index: is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

<sup>3</sup>Bloomberg Barclays VLI High Yield Index: a component of the US Corp High Yield Index that is designed to track a more liquid component of the USD-denominated, high yield, fixed-rate corporate bond market. The US High Yield VLI uses the same eligibility criteria as the US Corp High Yield Index, but includes only bonds that have a minimum amount outstanding of USD500mn and less than five years from issue date.

<sup>4</sup>FT Taxable Fixed Income CEF Index: a capitalization weighted index designed to provide a broad representation of the taxable fixed income closed-end fund universe. The taxable fixed income closed-end fund market is comprised of the following sectors; high yield corporate, senior loan, global income, emerging market income, multi-sector, government, convertible, and mortgage funds.

<sup>5</sup>The price as 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.

*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. A copy of the prospectus is available at [www.ncfunds.com](http://www.ncfunds.com) or by calling Shareholder Services at 1-800-773-3863. The prospectus should be read carefully before investing.*

**NOT FDIC INSURED  
NO BANK GUARANTEE  
MAY LOSE VALUE**

The commentary contains information about closed-end funds and related financial markets. The information is not advice, and should not be treated as such. Any reference to a specific fund or security does not constitute a recommendation to buy, sell, hold, or directly invest in the fund or its securities. It should not be assumed that investment decisions made in the future will be profitable or will equal the performance of the funds or securities discussed in this commentary. Past performance does not guarantee future results, which may vary. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.

Matisse Capital is the investment advisor to the Matisse Discounted Bond CEF Strategy (MDFIX). This commentary does not constitute an offer to sell or a solicitation of an offer to buy shares of the Funds in any jurisdiction in which such offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction.