

## PART 2A OF FORM ADV: FIRM BROCHURE



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This brochure provides information about the qualifications and business practices of Deschutes Portfolio Strategy, LLC, dba Deschutes Portfolio Strategies. If you have any questions about the contents of this brochure, please contact us at (503) 210-3000 or [bryn@deschutesportfolio.com](mailto:bryn@deschutesportfolio.com).

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Deschutes Portfolio Strategy, LLC, also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Please note that registration with the SEC as a Registered Investment Adviser does not imply a certain level of skill or training.

Throughout the rest of the document, we refer to Deschutes Portfolio Strategy, LLC, as "DPS". References in this document to "DIA" refer to a former investment advisor, Deschutes Investment Advisors, Inc., which is no longer SEC-registered and no longer has investment clients. DIA was 50% owned by Bryn Torkelson and 50% owned by MacGregor Hall. For more information on DIA, please see the previous ADV filings for DPS and DIA.

## **Item 2. Material Changes**

The following material change was made to our Investment Advisor Firm Brochure (Form ADV Part 2A) since the last annual update (March 18, 2015).

- Item 12 has been updated to reflect that Deschutes Portfolio Strategies (DPS) has begun utilizing client commissions to pay for specific brokerage and research services, a practice referred to as using “soft dollars”, as allowed under Section 28(e) of the Securities Exchange Act of 1934.

Language was also added to Items 12 and 17, clarifying the firm’s policies on internal cross transactions and voting client securities, respectively.

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#### **Item 4. Advisory Business**

DPS, an investment adviser formed and SEC-registered in 2010, is 100% owned by Bryn Torkelson (see bio below). DPS provides investment advice, financial planning and retirement plan management (including employee education) to clients on both a discretionary and non-discretionary basis. Investment advisory services consist of advice on asset allocation, strategic portfolio structuring, the selection and monitoring of mutual funds (both closed-end and open-end), and the selection and monitoring of partnerships managed by third-party investment advisors. Financial planning services are offered on both a limited scope and a comprehensive basis. DPS works with many different types of clients, including individuals, families, corporate boards, 401k or pension boards, foundations, endowments and trusts.

Each client is unique, and we provide our investment advisory services with this fact in mind. For example, some clients prefer to be informed prior to all transactions, and to weigh in on the merits of different investment choices, while some prefer to allow us to make those choices. Some clients are qualified for, and wish to make investments in, hedge funds, while some do not. Some clients ask us to do independent research on an investment the client proposes to make, or to analyze and critique their current investment portfolio. DPS allows our clients to impose restrictions on investing in certain securities or types of securities, but such requests are rare.

As of 12/31/15, DPS advises to a total of \$949.2 million across 721 client accounts. We advise to \$394.7 million across 44 client accounts on a non-discretionary basis (mostly corporate 401k plans), and \$554.5 million across 677 client accounts on a discretionary basis (mostly high net worth individuals). For the purposes of this paragraph, MDCEX is counted as a single discretionary account, and individual MAR partners are counted as separate discretionary accounts.

Of special note, DPS serves as the investment manager of one LLC: Matisse Absolute Return Fund, LLC (MAR); and one open-end fund: Matisse Discounted Closed-End Fund Strategy (MDCEX). MAR primarily invests in various other investment partnerships, and MDCEX primarily invests in discounted closed-end mutual funds utilizing an internally developed strategy. DPS manages the partnership assets of MAR and the assets of MDCEX on a discretionary basis. DPS may be engaged to advise clients or prospective clients as to the appropriateness of investing in MAR or MDCEX, and as such has a conflict of interest with respect to any advice thus provided. DPS discloses this conflict both verbally and in writing, and does not double-charge client assets invested in either of the funds.

**PRINCIPAL OWNER AND BACKGROUND:** Bryn Torkelson - Born December 6, 1956 Education: 1976-1980: University of Oregon; Eugene, OR; B.S. - Finance Business Background: Mr. Torkelson has been in the investment business since 1981. He began his career with Smith Barney, founded DIA in 1997 and DPS in 2010, and has no current brokerage affiliations. Former brokerage affiliations: Dain Bosworth ('86-'97); Raymond James ('97-'02); Cantella ('02-'04); KMS ('04-'05).

#### **Item 5. Fees and Compensation**

DPS offers most of its investment advisory services for a fixed percentage of assets under management according to a written fee schedule agreed upon at the outset of the advisory relationship. DPS occasionally charges hourly for its financial planning services, or charges a fixed fee for one-time special projects. The negotiable fee structure for investment management has a typical minimum annual fee of \$10,000, or up to 1.5% of AUM. However, DPS's typical asset-based fee starts at 1% and declines to 0.25% on accounts greater than \$10 million, and is typically negotiated on accounts greater than \$25 million. The fee structure may be amended from time to time by DPS upon 30-60 days prior written notice (depending on client type) to client.

Fees are typically paid directly to DPS from the Account by the third-party qualified custodian (typically Charles Schwab or TD Ameritrade) upon submission of an invoice to the custodian showing the amount of fees, the value of the client's assets on which the fees are based, and the specific manner in which the fees are calculated. In certain cases, the client prefers to remit payment of fees directly to DPS by check in response to an invoice sent by DPS. Clients may select either method.

DPS's fees are payable quarterly in advance based on the most recent quarterly asset valuation. If client assets are invested in mutual funds, the client may be required to pay, in addition to the DPS fee, a proportionate share of each fund's marketing and advertising expenses (12b-1), management fees, and other mutual fund operating expenses. These fees are deducted prior to a mutual fund stating its daily NAV, and are therefore not directly itemized expenses for the client. Clients will also incur brokerage and other transaction costs, and/or custodial fees; these fees are payable directly to the unrelated broker or custodian. Please refer to page 12, Brokerage Practices, for further information.

Though clients must pay quarterly in advance, if a client terminates the investment advisory agreement prior to the end of a quarter, fees will be prorated to the date DPS receives written notice of such termination. Any unearned portion of prepaid fees are refunded to the client using whatever method the client chooses (check, or credited to account).

As the investment manager for MAR and MDCEX, DPS collects a somewhat higher fee on assets in these vehicles (for MDCEX, approximately 1.0%, which could range up to a maximum of 1.2% at higher asset levels; for MAR a 1% fee plus an incentive fee of 10% of profits after a 5% annual hurdle, and a high water mark).

Certain individual employees of DPS are compensated in part based on the fees collected from these vehicles. This creates a conflict of interest, giving DPS and its employees an incentive to recommend MAR or MDCEX based on the higher compensation received rather than on the client's needs.

To address this conflict:

- Mr. Torkelson reviews all such recommendations as they occur.
- Clients are informed verbally, and in the LLC documents (in the case of MAR), that DPS and its related parties have a greater financial interest in these two vehicles due to their higher fees, and that the client's total fees might be lower outside these two vehicles.
- Assets in the two vehicles are not charged a separate management fee in addition to the fees outlined in the LLC and fund documents.

#### **Item 6. Performance-Based Fees and Side-By-Side Management**

The incentive fee DPS earns for its investment management services to MAR, since it is based on a percentage of the gains in a given year, is termed a "performance fee". All other clients for whom DPS currently manages investments pay an asset-based fee rather than a performance fee. The discrepancy between these two types of fees creates a conflict of interest.

For example: DPS and its employees who manage MAR have an incentive to favor these accounts over other types of accounts. DPS and its employees may spend more time, and exert more effort, managing MAR. To illustrate the conflict, if \$1,000,000 in an asset-based client account appreciates 20% in a given year, the following year's fee may be \$12,000 instead of \$10,000. However, if the same \$1,000,000 in MAR appreciates 20%, DPS may collect \$25,000 instead of \$10,000.

DPS addresses these conflicts by:

- Typically the strategies employed in MAR (ownership of externally managed, unrelated investment partnerships) are quite different from those employed in other client accounts. This reduces the potential for a situation where DPS or its employees have to decide whether to allocate a particular investment opportunity with limited capacity to MAR or its other clients.
- Full disclosure at all levels, to all clients and prospects.

#### **Item 7. Types of Clients**

DPS provides investment advice to high net worth individuals, trusts, estates, charitable organizations, corporations, open-end mutual funds, investment partnerships, pension and profit sharing plans. DPS generally requires a minimum of \$500,000 to open an individually managed account (or group of accounts), but reserves the right to waive this minimum. Our clients are mostly located in the Pacific Northwest, although we have clients in a few other states as well.

#### **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

For most of its AUM, DPS invests client assets primarily in low-fee, institutional class, no-load, open-end mutual funds. Our core expertise is in combining multiple mutual funds from different management companies in order to build a diversified portfolio with risk parameters matching the client's. We collect no 12b-1 or other fees to place client assets in any particular mutual fund, and the resultant reduction in conflicts of interest is one of our key strengths. We use the tenets of modern portfolio theory (as regards the basic relationship between risk and return, the reduction in risk that comes from diversification, etc.) as an initial guide in constructing optimal portfolios, but are well aware of MPT's many flaws, and are therefore not dogmatic in our adherence to it.

We select mutual funds, all else equal, with: excellent long-term performance under a consistently applied strategy and/or manager group, low expense ratios, low historical volatility, protection of capital in bear markets, and smaller fund size. For equity funds the following is also considered: a demonstrable value-based (or growth-at-a-reasonable-price) approach, good historical stewardship of shareholder capital, consistency of results over time, and a high alpha. We seek funds with low correlation to one another, thereby increasing the benefits of diversification.

DPS favors open-end mutual funds for several reasons: legally required diversification within a fund (per the '40 Act), reducing risk of loss that comes from concentration, lower fees than many other types of structures, daily liquidity, the fact that many institutional low-cost funds are available on the platform we use for most of our accounts (Schwab) and access to many types of strategies beyond traditional long stocks and bonds.

Although approximately 80% of the funds under our management are invested in open-end mutual funds, we also make use of many other types of securities in client accounts, such as: individual equity securities (exchange-listed, over-the-counter and foreign), ETFs, closed-end funds, warrants and options, individual corporate bonds, CDs, municipal bonds, annuities, US government securities, and investment partnerships. When selecting from these security types, we favor fundamental analysis (rather than technical, charting, cyclical or other methods) that attempts to determine a security's intrinsic value and compare its current trading price to that value. We gather information for making this value determination from multiple sources, including financial newspapers, our own (or outside analyst) inspection of corporate activities, research materials prepared by others, corporate rating services, a company's own SEC filings, company press

releases, etc. Our main research tools include a Bloomberg terminal and Morningstar. Generally, DPS implements long-term strategies to build client wealth, but some of our strategies are based on more of a short-term or trading method. We occasionally employ techniques such as short sales, margin transactions, and option writing (both puts and calls).

DPS also employs a discounted closed-end fund strategy, constructing a portfolio of discounted closed-end funds using proprietary historical research dating back to 1988, as well as more detailed recent applied analysis of the factors affecting the returns of discounted closed-end funds. While the strategy is flexible and multi-faceted, the core focus is on taking advantage of inefficiencies in the closed-end fund universe using publicly traded closed-end funds. We enter nearly all positions with a view towards holding them for a long time, but are willing to trade out of them if their price is no longer far removed from our analysis of their value. In the closed-end fund space, we have developed a proprietary model which guides us when to exit and enter positions. The model is built on the core idea that CEF discounts to NAV fluctuate over time, and that discounts are more a function of random market circumstances than of anything fundamental to the future underlying performance of the fund's NAV. We are looking for an unwarranted, large discrepancy between price and our perception of long-term value. We favor positions where the discrepancy is large and the value is more certain in our view.

The closed-end fund model occasionally leads us to trade heavily in a short time period, and much more often makes small changes 'around the edge'. We believe massive structural inefficiencies persist in the closed-end fund space, and are unlikely to decline, much less vanish, in the short term or intermediate term. The largest potential risk to our strategy is the historical fact that closed-end fund discounts sometimes widen dramatically across most of the universe. When this happens, we are likely to experience unsatisfactory returns. Another more common but less impactful risk would be over-concentration in a position leading to large losses. We tend to be much more interested in low-risk, large-upside positions, than in high-risk positions.

For all of the above investment strategies, including mutual funds, clients and prospective clients should note carefully that investing in securities involves risk of loss that clients should be prepared to bear. For example, most equity mutual funds have very high correlation to the broad stock market and should be expected to lose as much or more than the stock market in any given period. In 2008, the S&P 500, a broad measure of the US stock market, fell 37%, and many mutual funds lost even more. Any strategy involving frequent trading can negatively affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

#### **Item 9. Disciplinary Information**

There have been no legal or disciplinary events involving DPS or any of our management persons that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

#### **Item 10. Other Financial Industry Activities and Affiliations**

As discussed previously in Items 4 and 5, DPS serves as the investment manager for one LLC, the Matisse Absolute Return Fund, LLC (MAR), and one open-end fund, the Matisse Discounted Closed-End Fund Strategy (MDCEX). Given that DPS may be engaged to advise clients or prospective clients about the appropriateness of investing in MAR and MDCEX, and that higher fees can potentially be derived from assets invested in these vehicles as opposed to other investment vehicles, a conflict of interest is created.

DPS is careful to address this conflict of interest in a number of manners, including disclosing the conflict to clients and potential clients verbally and in writing. In addition, assets that are invested in MAR or MDCEX are not charged a separate management fee, and Mr. Torkelson reviews all recommendations for investment in either vehicle as they occur.

#### **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

The DPS Code of Ethics is based on the principle that supervised persons, access persons and administrative staff members owe a fiduciary duty to our clients for which DPS serves as an advisor. This Code is to protect the interests of both clients and advisors by demanding that advisory personnel perform their duties with complete propriety and do not take advantage of their position. Accordingly, DPS employees must avoid activities, interests and relationships that might interfere or appear to interfere with making decisions in the best interest of our advisory clients. Failure to abide by this Code results in disciplinary action, including termination of employment. A complete copy of our Code of Ethics is available to our clients or prospective clients upon request.

As previously discussed in this brochure, DPS may recommend that clients invest in MAR or MDCEX, for which it is the investment manager. Mr. Torkelson reviews all such recommendations as they occur. Clients are informed verbally, and in the partnership documents, that DPS and its related parties and employees have a greater financial interest in MAR and MDCEX due to their higher fees, and that the client's fees might be lower outside these vehicles. Assets in MAR and MDCEX are not charged a separate advisory fee at the client level.

Employees of DPS may occasionally purchase or sell for their own personal accounts securities held or traded in DPS client accounts. Trades in the personal accounts may happen at times close to the times trades happen in the client accounts. To avoid any potential front-running of client trades, a record of all personal trades by Access Persons is collected quarterly and reviewed by DPS's Chief Compliance Officer. If evidence of front-running is found, the guilty party may be forced to disgorge any illegal profits, and the client account will be reimbursed by DPS. As a practical matter, most client trades involve mutual funds (for which front-running is not a concern), and Access Persons are in general not active traders in individual securities.

#### **Item 12. Brokerage Practices**

DPS and its employees typically (depending on the advisory agreement) have the authority to determine, without obtaining specific client consent, the securities to be bought or sold, the amount of securities to be bought or sold, the broker or dealer to be used, and the commission rate to be paid. DPS is not a broker-dealer, and no DPS related person is a broker-dealer. DPS seeks to obtain best execution for all client trades, but will not obligate itself to obtain the lowest commission or best net price on any particular transaction. Best execution is not synonymous with lowest brokerage commission. Consequently, in a particular transaction a client may pay a brokerage commission in excess of that which another broker might have charged for executing the same transaction.

A number of factors may be considered by DPS when selecting a broker or dealer to affect a transaction, including the expected market impact of the trade, the broker's execution capability, the broker's financial strength and stability, the broker's responsiveness to DPS, its reputation and access to the markets for the security being traded, the efficiency with which the transaction will be effected, commission rates and the value of research products and services that a broker lawfully may provide to assist DPS in the exercise of

its investment decision-making responsibilities. The determinative factor is not the lowest possible commission cost but whether the transaction represents the best qualitative execution for our clients. DPS will not execute any order in a fashion that is either preferential to one account relative to other like accounts managed by DPS, or materially adverse to such other accounts.

A cross transaction occurs when securities are purchased or sold between or among client accounts. If DPS engages in a cross transaction, the firm will use an independent unaffiliated broker. We have adopted cross transaction procedures to ensure that all clients are treated equitably. The use of cross transactions can increase the probability of completing a transaction at a better price. DPS will execute a cross transaction only when (i) we believe we can achieve best execution, (ii) the price of any cross transaction is fair, (iii) no client is disfavored, and (iv) we do not receive any form of compensation for effecting the transaction.

DPS participates in the institutional advisor program (the "Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC/NFA ("TD Ameritrade"), an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers to independent investment advisors services which include custody of securities, trade execution, clearance and settlement of transactions. DPS receives some benefits from TD Ameritrade through its participation in the Program. (Please see the disclosure under Item 14 below.)

#### *Research and Other Soft Dollar Benefits*

##### **1. Conflicts of Interest Arising out of Soft Dollars**

A. DPS benefits from the use of client commissions to purchase research because DPS can receive research services from brokers that it does not have to produce or pay for itself. One of the factors that DPS considers when selecting a broker to effect certain transactions is the research services provided to DPS by the broker. DPS accounts pay brokerage commissions on these transactions that are competitive but that are higher than the lowest available rate that another broker might have charged, and DPS receives research services as a result. The extra amount that clients pay above the lowest possible rate is commonly referred to as "soft dollars." Soft dollars create a significant conflict of interest because DPS has an incentive to trade with brokers providing the most or best research. These services, discussed in more detail below, are provided to DPS by brokers in exchange for client commissions and not because of payment from DPS.

As an advisor, DPS has an obligation to seek the best execution for client trades and not to use client assets for its own benefit at the expense of its clients. Recognizing the value of research in managing client accounts, however, Congress enacted Section 28(e) of the Securities Exchange Act of 1934 to allow advisors to use client commissions to acquire research services as long as the advisor determines, in good faith, that the amount of the commission was reasonable in relation to the value of the products and services received.

B. Soft dollars give DPS an incentive to select brokers based on its interest in receiving research services rather than on the client's interest in obtaining the best execution. DPS acknowledges that brokerage is the property of our clients. In order to manage the conflicts inherent in using soft dollars, DPS strives to (1) have transactions executed at prices that are advantageous to clients and at commission rates that are reasonable in relation to the benefits received; (2) use soft dollars to obtain research and brokerage products and services that we believe will provide the greatest benefit to our clients; (3) not use soft dollars to obtain products and services that may be construed to fall outside of the safe harbor provided by Section 28(e); (4) make a reasonable allocation of the cost of a product or service that provides both research and non-research assistance and pay for the portion that provides



non-research assistance with hard dollars; and (5) make full and fair disclosure of all material facts with respect to our soft dollar arrangements.

C. On certain transactions, DPS accounts pay brokerage commissions that are competitive but may be higher than the lowest available rate another broker might have charged, and DPS receives research services as a result. DPS clients “pay up” in these transactions (i.e., pay more than the lowest available commission for executing a securities trade in return for research services and products). To rely on the safe harbor of Section 28(e), DPS’s Chief Compliance Officer makes a good faith determination that the amount of commission paid is reasonable in relation to the value of the brokerage and research services provided by the broker-dealer. In determining whether a product or service is within the safe harbor, DPS determines whether the research and brokerage product or service provides lawful and appropriate assistance to DPS in carrying out its investment decision-making responsibilities. The Chief Compliance Officer also attempts to evaluate the cost of commissions against the industry averages.

D. Client accounts that have paid for a specific service may not receive the benefit from that service and other client accounts may benefit from a service for which they did not pay. All soft dollars that are generated from DPS clients are aggregated together and collectively used to pay for research services. Soft dollar benefits are not proportionally allocated to any accounts that may generate different amounts of soft dollar benefits. As described below, the types of research services acquired with soft dollars will often benefit DPS’s research team across the board and it is difficult if not impossible to separately measure the benefits a research service provides to each of the accounts managed by DPS. In addition, the volume and nature of trading activities of the accounts are not uniform, and so the amount of soft dollars paid by each account will vary. Certain clients will not contribute soft dollars through their transactions. These clients benefit from the research services provided to DPS through soft dollars generated by other DPS clients, even though they do not contribute soft dollars.

## 2. Types of Research Acquired with Soft Dollars

Third Party Research - The entirety of the soft dollar research provided to DPS is through unbundled commissions, where trade execution services and research services are paid separately to the broker. Payments for research services can then be made to third-party research providers other than the executing broker. This flexibility allows DPS to select the research services it feels are the most valuable to its research process and in turn most beneficial to its clients. Research products and services provided to DPS by broker-dealers include, among other things, databases, data services, and trading software.

DPS uses the majority of third party soft dollars for an order management system and Bloomberg Professional service. The order management system provides our research team, portfolio managers and trader with our positions information used to execute and manage our trading and research operations, and all trades, positions and client holding information can be maintained within the system. Bloomberg analytics provide real-time tools that can retrieve fundamental company, financial and economic data, monitor risk and exposure, utilize pricing models and evaluate long and short-term performance. The DPS research process relies heavily on these types of tools to provide foundational information to allow DPS to construct its portfolios. The information provided by these tools is used by DPS across its client portfolios, including those that do not generate soft dollars.

### 3. Mixed Use Allocations

On occasion, a product or service furnished to DPS by a broker-dealer may be useful in making investment decisions regarding client accounts and also provides administrative or other non-research assistance to DPS. Under such circumstances, DPS makes a reasonable allocation as follows: the portion of such service or specific component which provides assistance to DPS in its investment decision-making responsibilities is obtained from the broker-dealer with commissions paid on client portfolio transactions, while the portion of such service or specific component which provides non-research assistance is paid for by DPS with its own resources.

#### *Brokerage for Client Referrals*

Promotion or sales of Matisse Funds' shares is not a consideration in selecting broker-dealers to execute securities transactions for client accounts, including Matisse Funds. We do not compensate broker-dealers for distributing Matisse Funds' shares by directing brokerage transactions to them.

#### *Directed Brokerage*

In the event that a client directs DPS to use a particular broker, the client has the sole responsibility for negotiating commission rates and other transaction costs with the directed broker. Thus, a disparity may exist between the commissions borne by the client and the commissions borne by DPS's other clients that do not direct DPS to use a particular broker. Further, some brokers assess minimum transaction charges, which may be disadvantageous to the client; the client should understand that by instructing DPS to execute transactions through a specific broker, the client might not necessarily obtain commission rates and execution as favorable as those that would be obtained if DPS was able to place transactions with other brokers.

#### *Trade Aggregation and Allocation*

If DPS believes that the purchase or sale of a security is in the best interest of more than one of its clients, DPS may aggregate the securities to be purchased or sold into a single order ("a block trade") to obtain favorable execution and/or lower brokerage commissions. DPS will allocate securities so purchased or sold, as well as the expense incurred in the transaction, on a pro-rata basis or in another manner that it considers equitable and consistent with its fiduciary obligations to clients. Clients may not receive a pro-rata allocation of a block trade in instances where the trade is only partially filled. In such instances, for example, some clients may receive their entire allocation and some clients may not receive any allocation if their pro-rata share is less than a minimal amount or if DPS has used another equitable method to allocate the block trade. Clients should recognize that the advice given and the actions taken with respect to their accounts might differ from the advice given or the timing and nature of action taken with respect to other advisory accounts. Clients should further recognize that transactions in a specific security might not be accomplished for all advisory accounts at the same time or at the same price.

Certain conflicts of interest will arise related to aggregated transactions. DPS follows trade aggregation policies and procedures that seek to ensure that aggregated transactions are made in a manner fair and equitable to, and in the best interest of, client accounts. The Chief Compliance Officer is responsible for the implementation and periodic review and monitoring of these procedures.

Conflicts may arise in the allocation of investment opportunities among accounts that DPS advises. DPS will seek to allocate investment opportunities believed appropriate for one or more of its accounts equitably and consistent with the best interests of all accounts involved. However, there can be no assurance that a particular investment opportunity that comes to DPS's attention will be allocated in any particular manner.

#### **Item 13. Review of Accounts**

DPS reviews our managed client accounts not less than quarterly. The basic level of review is the same for each account. When DPS has advised a client with regard to selection and retention of 3rd-party investment managers, DPS reviews client positions with the 3rd-party manager when the manager issues its reports, generally quarterly. Reviews generally consider factors like overall allocation of the account as compared to the investment policy, historical performance of the account relative to relevant benchmarks, industry or security concentrations, prospects of each security held, percentage invested in each issue, and cash management. Mr. Torkelson is ultimately responsible for the review of all accounts. Due to the stability of its investments (primarily mutual funds) and the relatively small number of accounts, DPS's review process is informal.

DPS prepares written quarterly reports for clients. These reports include performance information, holdings, transactions and statistical analysis. Some of these reports are customized by DPS. They are delivered by hard copy, e-mail or in person, depending on the client's preference.

#### **Item 14. Client Referrals and Other Compensation**

As disclosed under Item 12 above, DPS participates in TD Ameritrade's institutional customer program and may recommend TD Ameritrade to Clients for custody and brokerage services. There is no direct link between DPS's participation in the program and the investment advice it gives to its Clients, although DPS receives economic benefits through its participation in the program that are typically not available to TD Ameritrade retail investors. These benefits include the following products and services (provided without cost or at a discount): receipt of duplicate Client statements and confirmations; research related products and tools; consulting services; access to a trading desk serving Advisor participants; access to block trading (which provides the ability to aggregate securities transactions for execution and then allocate the appropriate shares to Client accounts); the ability to have advisory fees deducted directly from Client accounts; access to an electronic communications network for Client order entry and account information; access to mutual funds with no transaction fees and to certain institutional money managers; and discounts on compliance, marketing, research, technology, and practice management products or services provided to DPS by third party vendors. TD Ameritrade may also have paid for business consulting and professional services received by DPS's related persons. Some of the products and services made available by TD Ameritrade through the program may benefit DPS but may not benefit its Client accounts. These products or services may assist DPS in managing and administering Client accounts, including accounts not maintained at TD Ameritrade. Other services made available by TD Ameritrade are intended to help DPS manage and further develop its business enterprise. The benefits received by DPS or its personnel through participation in the program do not depend on the amount of brokerage transactions directed to TD Ameritrade. As part of its fiduciary duties to clients, DPS endeavors at all times to put the interests of its clients first. Clients should be aware, however, that the receipt of economic benefits by DPS or its related persons in and of itself creates a potential conflict of interest and may indirectly influence the Advisor's choice of TD Ameritrade for custody and brokerage services.

DPS may receive client referrals from TD Ameritrade through its participation in TD Ameritrade AdvisorDirect. In addition to meeting the minimum eligibility criteria for participation in AdvisorDirect, DPS may have been selected to participate in AdvisorDirect based on the amount and profitability to TD Ameritrade of the assets in, and trades placed for, client accounts maintained with TD Ameritrade. TD Ameritrade is a discount broker-dealer independent of and unaffiliated with DPS and there is no employee or agency relationship between them. TD Ameritrade has established AdvisorDirect as a means of referring its brokerage customers and other investors seeking fee-based personal investment management services or financial planning services to independent investment advisors. TD Ameritrade does not supervise DPS, and has no responsibility for DPS's management of client portfolios or DPS's other advice or services. DPS pays TD Ameritrade an on-going fee for each successful client referral. This fee is usually a percentage (not to exceed 25%) of the advisory fee that the client pays to DPS ("Solicitation Fee"). DPS will also pay TD Ameritrade the Solicitation Fee on any advisory fees received by DPS from any of a referred client's family members, including a spouse, child or any other immediate family member who resides with the referred client and hired DPS on the recommendation of such referred client. DPS will not charge clients referred through AdvisorDirect any fees or costs higher than its standard fee schedule offered to its clients or otherwise pass Solicitation Fees paid to TD Ameritrade to its clients.

For information regarding additional or other fees paid directly or indirectly to TD Ameritrade, please refer to the TD Ameritrade AdvisorDirect Disclosure and Acknowledgement Form. DPS's participation in AdvisorDirect raises potential conflicts of interest. TD Ameritrade will most likely refer clients through AdvisorDirect to investment advisors that encourage their clients to custody their assets at TD Ameritrade and whose client accounts are profitable to TD Ameritrade. Consequently, in order to obtain client referrals from TD Ameritrade, DPS may have an incentive to recommend to clients that the assets under management by DPS be held in custody with TD Ameritrade and to place transactions for client accounts with TD Ameritrade. In addition, DPS has agreed not to solicit clients referred to it through AdvisorDirect to transfer their accounts from TD Ameritrade or to establish brokerage or custody accounts at other custodians, except when its fiduciary duties require doing so. DPS's participation in AdvisorDirect does not diminish its duty to seek best execution of trades for client accounts.

DPS has entered into agreements with third-party marketing firms, and may enter into other such agreements in the future, to compensate such firms for referring clients into MDCEX. When this occurs, the client's total fee is no higher than the total fee of a client who purchased MDCEX on his own, because the compensation comes directly from DPS.

## **Item 15. Custody**

### *Investment Portfolios -*

All clients' accounts are held in custody by independent banks or broker/dealers. In accordance with the fee agreements signed by DPS and clients, DPS is permitted to debit advisory fees from most of our clients' accounts, and for that reason DPS may be considered to have custody of client assets. Custodians of our clients' accounts send directly to clients (or make available online, depending on the client preference) monthly statements, transaction reports and year-end tax reports. Clients should carefully review those statements for inaccuracies. DPS also sends periodic performance reports, as more fully described in Item 13. Clients should compare the account statements they receive from the custodian with the reports they receive from DPS.

### *Limited Partnership -*

Because the sole owner of DPS, Bryn Torkelson, is also the sole owner of Matisse Capital Management, the General Partner to MAR, this DPS related person is considered to have custody of the partnership's assets. As with our other client accounts, assets within MAR are held by a third-party qualified custodian, and statements are sent directly to the limited partners of MAR. Limited partners of MAR should carefully review these statements and compare them to any information provided by DPS and/or Matisse Capital Management.

MAR is audited on an annual basis by an independent accounting firm registered with the Public Company Accounting Oversight Board. Within 180 days after the end of the fund's fiscal year, its audited financial statements are distributed directly to the fund's limited partners.

### **Item 16. Investment Discretion**

DPS, as part of our standard investment advisory contract, accepts discretionary authority to manage securities accounts on behalf of clients. For some of DPS's clients (typically 401k plans), our authority is non-discretionary.

For our discretionary accounts, our customary practice is to discuss proposed positions and trades with the client before we implement them. However, we can and do at times exercise discretionary authority in client accounts without such advance discussion. Clients may place limits on this authority if they so desire. Typically, any such limits are informal arrangements between DPS and each client, since trust is a key element of each client relationship. Before assuming discretionary investment authority, DPS requires an executed investment advisory agreement with a client, and also the execution of a limited power of attorney between DPS, the custodian and the client.

### **Item 17. Voting Client Securities**

DPS's clients, when setting up their accounts at the third-party broker/custodian, may elect to retain authority for voting securities held in their accounts, or may elect to transfer that authority to DPS as investment manager. DPS accepts such authority, if granted by the client.

We may abstain from voting a proxy if we conclude that the effect on shareholders' economic interests or the value of the portfolio holding is indeterminable or insignificant. For example, we will sometimes abstain from voting proxies in an uncontested directors' election.

When DPS votes proxies, it follows the below general guidelines:

- FOR uncontested director elections where we perceive a company is managing shareholder capital well
- FOR reputable auditor firms
- FOR company share grant plans where we perceive a company is minimizing dilution
- AGAINST shareholder proposals related to environmental reports or political donations
- FOR most shareholder proposals which in our view will improve corporate governance
- In the case of closed-end funds, FOR proposals which, in our view, will tend to reduce or eliminate the discount to its net asset value at which a fund trades. These include, but are not limited to, proposals that discounted closed-end funds open-end, liquidate, conduct tender offers or otherwise buy back shares, increase cash distributions, merge with less discounted funds, change management firms, etc.

Without regard to the foregoing summary, DPS examines each proxy on its own merits, and votes each proxy in the best interest of our clients as we see it. In any particular solicitation, a client may direct us to vote securities in a particular way. In such situations, we will explain to the client our views on the solicitation, and disclose any conflicts of interest related to the solicitation (exceedingly rare), but will always follow the client's direction. Clients may obtain information about how their proxies were voted upon request to us. Clients may obtain a copy of our proxy voting policies and procedures upon request. Where clients have elected to retain authority for voting proxies, they receive proxies directly from the third-party qualified custodian. Clients may contact us directly with any questions about a particular solicitation.

#### **Item 18. Financial Information**

DPS is in good financial shape, and there is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Neither DIA nor DPS has ever been the subject of a bankruptcy petition. Because DPS does not require or solicit payment of fees more than 6 months in advance, we are not required to include in this brochure a balance sheet for our most recent fiscal year, and we have elected not to do so.

PART 2B OF FORM ADV:  
BROCHURE SUPPLEMENT



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Lake Oswego, OR 97035  
(503) 210-3000  
[www.deschutesportfolio.com](http://www.deschutesportfolio.com)

March 28<sup>th</sup>, 2016

Bryn H. Torkelson  
Daniel C. Sholian  
Eric A. Boughton  
James D. Mendenhall  
Andrew C. Hedges  
Axel H. Flichtbeil  
Rebecca Y. Wei  
Niklas H. Torkelson  
Deirdre S. Hochberg Higdon

This brochure supplement provides information about the individuals listed above that supplements the Deschutes Portfolio Strategies brochure. You should have received a copy of that brochure. Please contact Bryn Torkelson at 503-210-3001 if you did not receive Deschutes Portfolio Strategies' brochure or if you have any questions about the contents of this supplement.

Additional information about Bryn Torkelson, Daniel Sholian, Eric Boughton, Andrew Hedges, Axel Flichtbeil, Rebecca Wei, Niklas Torkelson, and Deirdre Hochberg Higdon is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Full name: Bryn Heyser Torkelson  
Year of Birth: 1956

Educational Background:  
University of Oregon; Eugene, OR; 1980; B.S. - Finance

Business experience for past 5 years:  
President and Sole Owner; Deschutes Portfolio Strategy LLC; 2010-present  
President, Principal and Chief Compliance Officer; Deschutes Investment Advisors, Inc. until 2011

Disciplinary Information:  
There are no legal or disciplinary events material to a client's or prospective client's evaluation.

Other Business Activities:  
As discussed elsewhere in this brochure, Mr. Torkelson is the sole owner of DPS, which is the investment advisor to Matisse Discounted Closed-End Fund Strategy, an open-end fund, ticker MDCEX. As also previously discussed, Mr. Torkelson is the sole owner of Matisse Capital Management, the general partner to Matisse Absolute Return Fund, a private investment partnership. This creates a conflict of interest in that Mr. Torkelson has a greater financial incentive in DPS clients investing in the funds.

Additional Compensation:  
Mr. Torkelson, as sole owner of Matisse Capital Management, may receive payments from partners in Matisse Absolute Return Fund who are not clients of DPS.

Supervision:  
As President of DPS, Mr. Torkelson is supervised by the current appointed delegate. Mr. Torkelson may be reached at (503) 210-3001.

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Full name: Daniel Creston Sholian  
Year of Birth: 1956

Educational Background:  
University of Oregon; Eugene, OR; 1980; B.S. - Finance

Business experience for past 5 years:  
Senior Client Services; Deschutes Portfolio Strategy LLC; 2010-present  
Senior Client Services; Deschutes Investment Advisors, Inc. until 2011

Disciplinary Information:  
There are no legal or disciplinary events material to a client's or prospective client's evaluation.

Other Business Activities:  
None

Additional Compensation:  
None



Supervision:

Bryn Torkelson, President, (503) 210-3001

Mr. Tokelson monitors, on an informal basis, and supervises, the advisory activities of Mr. Sholian on behalf of the firm.

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Full name: Eric Boughton, CFA

Year of Birth: 1975

Educational Background:

University of Houston; Houston, TX; 1997; B.S. – Mathematics—Applied Analysis

Business experience for past 5 years:

Portfolio Manager and Analyst; Deschutes Portfolio Strategy LLC; 2010-present

Portfolio Manager and Analyst; Deschutes Investment Advisors, Inc. until 2011

Professional Designation:

Chartered Financial Analyst (CFA)

To earn a CFA charter, you must have four years of qualified investment work experience, become a member of CFA Institute, pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct on an annual basis, apply for membership to a local CFA member society, and complete the CFA Program. The CFA Program is organized into three levels, each culminating in a six-hour exam. Completing the Program takes most candidates between two and five years. The Program reflects a broad Candidate Body of Knowledge™ (CBOK) developed and continuously updated by active practitioners to ensure that charterholders possess knowledge grounded in the real world of today's global investment industry.

Disciplinary Information:

There are no legal or disciplinary events material to a client's or prospective client's evaluation.

Other Business Activities:

None

Additional Compensation:

Mr. Boughton receives a portion of the advisory fees collected from certain clients.

Supervision:

Bryn Torkelson, President, (503) 210-3001

Mr. Tokelson monitors, on an informal basis, and supervises, the advisory activities of Mr. Boughton on behalf of the firm.

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Full Name: James Donald Mendenhall  
Year of Birth: 1957

Educational Background:  
Oregon State University; BA-Political Science

Business experience for past 5 years:  
Vice President of Marketing; Deschutes Portfolio Strategy LLC; 2012-present  
Business Owner

Disciplinary Information:  
There are no legal or disciplinary events material to a client's or prospective client's evaluation.

Other Business Activities:  
No Other Investment-related business activities

Additional Compensation:  
Mr. Mendenhall receives a portion of the advisory fees collected from certain clients.

Supervision:  
Bryn Torkelson, President, (503) 210-3001  
Bryn Torkelson monitors, on an informal basis, and supervises, the advisory activities of Mr. Mendenhall on behalf of the firm.

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Full name: Andrew Charles Hedges  
Year of Birth: 1977

Educational Background:  
BS-Oregon State; MAT-Concordia University

Business experience for past 5 years:  
Director of Marketing; Deschutes Portfolio Strategy LLC; 2012-present  
Regional Director; Jani-King of Oregon; 2008-2011

Disciplinary Information:  
There are no legal or disciplinary events material to a client's or prospective client's evaluation.

Other Business Activities:  
None

Additional Compensation:  
None

Supervision:  
Bryn Torkelson, President, (503) 210-3001

Bryn Torkelson monitors, on an informal basis, and supervises, the advisory activities of Mr. Hedges on behalf of the firm.

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Full name: Axel Herbert Flichtbeil  
Year of Birth: 1951

Educational Background:  
BA – Mathematical Economics; Reed College, Portland OR; 1973

Business experience for past 5 years:  
Senior Investment Consultant; Deschutes Portfolio Strategy LLC; 2015-present  
Investment Consultant; Heintzberger|Payne; 2002-2015  
CFO; Wellmed, Inc; 1997-2002

Disciplinary Information:  
There are no legal or disciplinary events material to a client's or prospective client's evaluation.

Other Business Activities:  
Coordination of Partnership account for TBIH Investments and GJ3N Investments.

Additional Compensation:  
Less than \$600 annually in total from TBIH and GJ3N.

Supervision:  
Bryn Torkelson, President, (503) 210-3001  
Bryn Torkelson monitors, on an informal basis, and supervises, the advisory activities of Mr. Flichtbeil on behalf of the firm.

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Full name: Rebecca Wei, CFA, CIPM  
Year of Birth: 1973

Educational Background:  
BA – University of California, Los Angeles

Business experience for past 5 years:  
Performance and Research Analyst; Deschutes Portfolio Strategy LLC; 2013-present  
Analyst/Associate; Pension Consulting Alliance Inc.; 2002-2011

Professional Designation:  
Chartered Financial Analyst (CFA)  
To earn a CFA charter, you must have four years of qualified investment work experience, become a member of CFA Institute, pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct on an annual basis, apply for membership to a local CFA member society, and complete the CFA

Program. The CFA Program is organized into three levels, each culminating in a six-hour exam. Completing the Program takes most candidates between two and five years. The Program reflects a broad Candidate Body of Knowledge™ (CBOK) developed and continuously updated by active practitioners to ensure that charterholders possess knowledge grounded in the real world of today's global investment industry.

Certificate in Investment Performance Measurement (CIPM)

According to the CIPM Association, the CIPM program was developed by the CFA Institute as a specialty credentialing program that develops and recognizes the performance evaluation and presentation expertise of investment professionals who "pursue excellence with a passion." The program also provides a strict code of ethics to guide investment professionals throughout their careers.

Disciplinary Information:

There are no legal or disciplinary events material to a client's or prospective client's evaluation.

Other Business Activities:

None

Additional Compensation:

None

Supervision:

Bryn Torkelson, President, (503) 210-3001

Bryn Torkelson monitors, on an informal basis, and supervises, the advisory activities of Ms. Wei on behalf of the firm.

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Full name: Deirdre Skye Hochberg Higdon

Year of Birth: 1982

Educational Background:

B.A. – Political Science, Economics, with Honors; University of California at San Diego; La Jolla, CA; 2004

Business experience for past 5 years:

Operations Manager; Deschutes Portfolio Strategy LLC; 2014-present

Operations Specialist; AKT Retirement Plan Services; 2012-2014

Business Analyst; Vestas Americas; 2011-2012

Trust Operations Assistant; South Valley Bank & Trust; 2009-2011

Disciplinary Information:

There are no legal or disciplinary events material to a client's or prospective client's evaluation.

Other Business Activities:

None

Additional Compensation:

None

Supervision:

Bryn Torkelson, President, (503) 210-3001

Bryn Torkelson monitors, on an informal basis, and supervises, the advisory activities of Ms. Higdon on behalf of the firm.

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Full name: Niklas Heyser Torkelson

Year of Birth: 1991

Educational Background:

B.S. – Business Administration, Finance, with Honors; University of Oregon; Eugene, OR; 2013

Business experience for past 5 years:

Analyst; Deschutes Portfolio Strategy LLC; 2013-present

Disciplinary Information:

There are no legal or disciplinary events material to a client's or prospective client's evaluation.

Other Business Activities:

None

Additional Compensation:

None

Supervision:

Bryn Torkelson, President, (503) 210-3001

Bryn Torkelson monitors, on an informal basis, and supervises, the advisory activities of Mr. Torkelson on behalf of the firm.

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