

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 and Matisse Capital. If you have any questions about the contents of this brochure, please contact us at (503) 210-3000 or 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.

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".

Item 2. Material Changes

The following material changes were made to our Investment Advisor Firm Brochure (Form ADV Part 2A) since the last annual update (March 30, 2017).

- Item 4, Advisory Business, has been updated to include discussion of the discounted closed-end fund strategy employed by the firm. The additional language also discloses the different account types across which this strategy is employed, as well as associated conflicts of interest.
- Item 8, Methods of Analysis, Investment Strategies and Risk of Loss, has been updated to include a more thorough discussion of risks and fee arrangements associated with our discounted closed-end fund strategy.

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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. In certain instances, DPS will begin doing business as Matisse Capital.

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.

As of 06/30/2017, DPS advises to a total of \$1,104 million across 761 client accounts. We advise to \$572.3 million across 75 client accounts on a non-discretionary basis (mostly corporate 401k plans) and \$531.7 million across 686 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 for the Matisse Absolute Return Fund, LLC (MAR) and one open-end fund, the 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 investment advice provided. DPS discloses this conflict both verbally and in writing, and does not double-charge client assets invested in either of the funds.

A principal strategy in which DPS specializes is our discounted closed-end fund (CEF) strategy, which entails constructing a portfolio of discounted CEFs using proprietary research. We select and trade discounted CEFs to create globally balanced and diversified portfolios. Our goal is to create positive alpha by taking advantage of favorable discount movements---purchasing a CEF at a certain discount to its NAV and subsequently selling it at a narrower discount to NAV. Of course, we do not, and can not, achieve this goal in every case, nor is capturing favorable discount movement always associated with positive alpha---or even positive returns. Past performance is no guarantee of future results. Certain risks associated with our strategy are discussed more fully in item 8, and include risk of loss, tax inefficiency, and high turnover.

We employ this strategy across three broad types of accounts: 1) within MDCEX, 2) within separate accounts where the end-client is an advisory client of DPS, and 3) within separate accounts where DPS acts only as sub-advisor. In cases where DPS acts as sub-advisor, we execute the strategy on behalf of outside independent advisory firms. The three different account types introduce potential fee differences, performance dispersion and potential conflicts of interest in the allocation of the investment opportunities among these account types.

- Fees are negotiated by each end-client or the outside advisor firm, and therefore vary. Potential clients should understand they may not receive the lowest fee charged by DPS for this strategy. All fees are disclosed and agreed upon at the initiation of the advisory relationship.

- Due to fee differences, and due to differences in our method of executing our strategy among various account types, performance can and does vary somewhat between accounts using the strategy. A key difference is that we rebalance MDCEX on an ongoing, daily basis, whereas separate accounts are rebalanced periodically, usually quarterly. Each account's performance is fully disclosed on statements, and all strategy accounts receive a quarterly performance examination from an independent third-party performance examination firm, in which the firm analyzes and seeks an explanation for any notable performance variations, among other things.
- Since discounted closed-end funds are not highly liquid, and since we have chosen different rebalance methodologies for different account types, DPS faces decisions on an ongoing basis about how to allocate executed trades. Our decisions will affect performance differences between accounts. We could potentially face conflicts of interest in making these allocation decisions due to fee differences between accounts, and the fact that employees of DPS have personal investments in the mutual fund, MDCEX, and not in separate accounts. In order to mitigate these conflicts, we manage every account (regardless of type) using the same quantitative model, identify the destination for all trades prior to placing them, and apply either pro-ratio or random allocation methodologies for partial fills. All accounts are also included in our performance composite, which dis-incentivizes us from benefiting one account at another's expense.

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, the predecessor firm to DPS, in 1997, and founded DPS in 2010; he 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 due. The invoice submitted is based on the value of the client's assets, and is calculated by DPS using its portfolio management software system. Alternatively, the client may prefer to remit payment of fees directly to DPS by check in response to an invoice sent by DPS.

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 fees), 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 Item 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.

As the investment manager for MAR and MDCEX, DPS collects a somewhat higher fee on assets in these vehicles (for MDCEX, up to 0.99%; 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 compensation 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 an asset based management fee in addition to the fees charged by MAR and MDCEX.

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:

- Fully disclosing the conflict to all clients and prospects.
- 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.

Item 7. Types of Clients

DPS provides investment advice to a national clientele of high net worth individuals, trusts, estates, charitable organizations, corporations, an open-end mutual fund, investment partnerships, pension and profit sharing plans, foundations and endowments. 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.

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. To avoid a conflict of interest, we collect no 12b-1 or other fees as an incentive to place client assets in any particular outside mutual fund.

In addition to other investment theories, DPS uses the tenets of modern portfolio theory, which considers the basic relationship between risk and return and the reduction in risk that comes from diversification, in constructing optimal portfolios.

We select mutual funds 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. We select equity funds with 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, 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, and access to many types of strategies beyond traditional long stocks and bonds.

Although the majority of the assets 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 analysts) inspection of corporate activities, research materials prepared by others, corporate rating services, company SEC filings and company press releases.

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 this 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 long term, 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 closed-end fund 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.

The closed-end fund model occasionally leads us to trade heavily in a short period, however we much more often make small changes. 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.

A more thorough discussion of risks associated with investing in the closed-end fund strategy is as follows:

- **Underlying Funds Risk.** The strategy invests in underlying closed-end funds. Investments in other funds subject the strategy to additional operating and management fees and expenses. For instance, investors in the strategy will indirectly bear fees and expenses charged by the funds in which the strategy invests, in addition to our direct fees and expenses. The strategy's performance depends in part upon the performance at NAV of the funds we select, based on the strategies and instruments used by these funds, along with our ability to select funds and effectively allocate assets among them.
- **Control of Portfolio Funds Risk.** Although DPS will evaluate regularly each closed-end fund in which the strategy invests to determine whether its investment program is consistent with the strategy's investment objective, we will not have any control over the investments made by a closed-end fund. The investment advisor to each closed-end fund may change aspects of its investment strategies at any time. We will not have the ability to control or otherwise influence the composition of the investment portfolio of a closed-end fund.
- **Closed-End Fund Risk.** Closed-end funds involve investment risks different from those associated with other investment companies. First, the shares of closed-end funds frequently trade at a premium or discount relative to their net asset value. When DPS purchases shares of a closed-end fund at a discount to its net asset value, there can be no assurance that the discount will decrease, and it is possible that the discount may increase and affect whether we will realize a gain or loss on the investment. Second, many closed-end funds use leverage, or borrowed money, to try to increase returns. Leverage is a speculative technique and its use by a closed-end fund entails greater risk and leads to a more volatile share price. If a closed-end fund uses leverage, increases and decreases in the value of its share price will be magnified. The closed-end fund will also have to pay interest or dividends on its leverage, reducing the closed-end fund's return. Third, many closed-end funds have a policy of distributing a fixed percentage of net assets regardless of the fund's actual interest income and capital gains. Consequently, distributions by a closed-end fund may include a return of capital, which would reduce the fund's net asset value and its earnings capacity. Finally, closed-end funds are allowed to invest in a greater amount of illiquid securities than open-end mutual funds. Investments in illiquid securities pose risks related to uncertainty in valuations, volatile market prices, and limitations on resale that may have an adverse effect on the ability of the fund to dispose of the securities promptly or at reasonable prices.
- **Market Risk.** Market risk refers to the possibility that the value of securities held by the strategy may decline due to daily fluctuations in the market. Market prices for securities change daily as a result of many factors, including developments affecting the condition of both individual companies and the market in general. The price of a security may even be affected by factors unrelated to the value or condition of its issuer, such as changes in interest rates, economic and political conditions, and general market conditions. The strategy's performance will change daily in response to such factors.
- **Management Style Risk.** Different types of securities tend to shift into and out of favor with investors depending on market and economic conditions. The returns from the types of investments purchased by the strategy (e.g., closed-end funds which pay regular periodic cash distributions) may at times be better or worse than the returns from other types of strategies. Each type of investment tends to go through cycles of performing better or worse than the market in general. The performance of the strategy may thus be better or worse than the performance of funds that focus on other types of investments, or that have a broader investment style.

- **Quantitative Model Risk.** Securities or other investments selected using quantitative methods may perform differently from the market as a whole. There can be no assurance that these methodologies will enable the strategy to achieve its objective.
- **Foreign Securities Risk.** The strategy may invest in foreign securities. Foreign securities involve investment risks different from those associated with domestic securities. Changes in foreign economies and political climates are more likely to affect the strategy than investments that solely hold domestic securities. The value of foreign currency denominated securities or foreign currency contracts is affected by the value of the local currency relative to the U.S. dollar. There may be less government supervision of foreign markets, resulting in non-uniform accounting practices and less publicly available information about issuers of foreign currency denominated securities. The value of foreign investments may be affected by changes in exchange control regulations, application of foreign tax laws (including withholding tax), changes in governmental administration or economic or monetary policy (in this country or abroad), or changed circumstances in dealings between nations. In addition, foreign brokerage commissions, custody fees, and other costs of investing in foreign securities are generally higher than in the United States. Investments in foreign issues could be affected by other factors not present in the United States, including expropriation, armed conflict, confiscatory taxation, and potential difficulties in enforcing contractual obligations.
- **Portfolio Turnover Risk.** DPS will sell portfolio securities when it is in the interests of our clients to do so without regard to the length of time they have been held. As portfolio turnover may involve paying brokerage commissions and other transaction costs, there could be additional expenses for the strategy. High rates of portfolio turnover may also result in the realization of short-term capital gains and losses. Any distributions resulting from such gains will be considered ordinary income for federal income tax purposes. Under normal circumstances, the anticipated portfolio turnover rate for the strategy is expected to be greater than 100%.

As the investment manager for the mutual fund that employs the discounted closed-end fund strategy, MDCEX, DPS collects a fee on assets in this vehicle (up to 0.99%), which in some cases could be higher than the client's contractual advisory fee. Additionally, certain individual employees of DPS are compensated in part based on the fees collected from the strategy accounts, including both MDCEX and separate accounts. These fee and compensation arrangements create conflicts of interest, giving DPS and/or its employees an incentive to recommend MDCEX and/or the closed-end fund strategy based on the higher compensation or fees received, rather than on the client's needs.

To address these conflicts:

- Mr. Torkelson reviews all such recommendations as they occur.
- Clients are informed that DPS and its related parties may have a greater financial interest in this strategy due to these fee and compensation arrangements.
- For direct DPS advisory clients who invest in MDCEX, DPS excludes the MDCEX portion of their account when calculating their asset-based contractual advisory fee. This is done so as not to double-charge the client, as DPS already collects the management fee within MDCEX.
- DPS employee compensation arrangements do not affect or change the fees paid by the client.

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 fees, other transaction costs and taxes.

Item 9. Disciplinary Information

DPS has no legal, regulatory, administrative enforcement, or disciplinary events involving 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.

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 an asset based management fee in addition to the fees charged by MAR and MDCEX.

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 investment advisory representatives and administrative staff members (Access Persons) owe a fiduciary duty to our clients for which DPS serves as an advisor. The Code of Ethics is to protect the interests of both clients and advisors by demanding 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 DPS's Code of Ethics may result 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. 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. As a practical matter, generally DPS Access Persons are not active traders in individual securities.

Item 12. Brokerage Practices

DPS and its employees may 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, in certain circumstances, the commission rate to be paid. DPS is not a broker-dealer and no DPS related person is a broker-dealer. 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 overall 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 we believe we can achieve best execution, the price of any cross transaction is fair, no client is disfavored and we do not receive any form of compensation for effecting the transaction.

DPS participates in the institutional advisor program ("Program") offered by TD Ameritrade Institutional. TD Ameritrade Institutional is a division of TD Ameritrade Inc., member FINRA/SIPC ("TD Ameritrade"), and an unaffiliated SEC-registered broker-dealer and FINRA member. TD Ameritrade offers services to independent investment advisors 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. (See Item 14 below.)

Research and Other Soft Dollar Benefits

1. Conflicts of Interest Arising out of Soft Dollars

DPS receives research and related services from brokers at no cost. This is commonly referred to as the receipt of "soft dollar" benefits. 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. Partly because of the receipt of soft dollars, DPS accounts may pay brokerage commissions on these transactions that are competitive but that may be higher than the lowest available rate that another broker might have charged. Soft dollars create a significant conflict of interest because DPS has an incentive to trade with brokers providing the most or best research and related services.

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. 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 related services that we believe will provide the greatest benefit to our clients;
- (3) Pay for non-research assistance with hard dollars; and
- (4) Make full and fair disclosure of all material facts with respect to our soft dollar arrangements.

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 Services Acquired with Soft Dollars

DPS receives soft dollar research and related services for a Bloomberg Professional service and Morningstar Office access. 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. Morningstar Office provides data focused research on many types of investments that we use across client accounts, including open-end and closed-end mutual funds.

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. Furthermore, 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 (Block Trades)

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 ("block trade") to obtain favorable execution and/or lower brokerage commissions. Typically, DPS will allocate securities to be 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, or due to cash and holdings differences between various accounts. In such instances, 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. Notwithstanding the above, not all trades will be executed at the same time or at the same price.

Certain conflicts of interest will arise related to block trades. 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 third-party investment managers, DPS reviews client positions with the third-party manager when the manager issues its reports, generally quarterly. Reviews generally consider factors like overall allocation of the account as compared to the client's investment objectives, 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.

DPS prepares written quarterly reports for clients. These reports include performance information, holdings, account activity and statistical analysis. Some of these reports are customized by DPS. They may be delivered either by hard copy, e-mail or in person.

Item 14. Client Referrals and Other Compensation

Certain employees of DPS may receive additional compensation for client assets that are invested in the closed-end fund strategy. These employees may receive more compensation based on the value of firm assets that employ this investment strategy. Consequently, such employees have an incentive to encourage clients to use this strategy over other strategies which do not pay the employee additional compensation. This creates a conflict of interest.

To address this conflict, Mr. Torkelson reviews all such recommendations based on suitability factors prior to client assets being invested in the closed-end fund strategy. This employee compensation does not affect the fees paid by the client, and clients of DPS are not charged a higher advisory fee for using any particular strategy recommended by the firm. Mr. Torkelson believes that this method of compensation, as currently paid to the firm's Portfolio Manager, creates a positive incentive for the employee to strive for the best possible performance within the strategy.

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 and qualified custodians/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 provide clients statements, transaction reports and year-end tax reports. Clients should compare the account statements they receive from the custodian with the reports they receive from DPS. DPS also sends periodic performance reports.

Limited Partnership -

Because the sole owner of DPS, Bryn Torkelson, is also the sole owner of Matisse Capital Management, LLC, 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, LLC.

MAR is audited on an annual basis by an independent accounting firm registered with the Public Company Accounting Oversight Board. With certain exceptions, 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 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 proxies or may elect to transfer that authority to DPS.

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.

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.

Item 18. Financial Information

DPS has no financial issues that impair our ability to carry out our fiduciary duty to our clients. DPS has never been the subject of a bankruptcy petition. Because DPS does not require payment of fees in excess of \$500 more than six 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



4949 Meadows Road, Suite 200
Lake Oswego, OR 97035
(503) 210-3000
www.deschutesportfolio.com

March 30, 2017

Bryn H. Torkelson
Daniel C. Sholian
Eric A. Boughton
James D. Mendenhall
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, Axel Flichtbeil, Rebecca Wei, Niklas Torkelson, and Deirdre Hochberg Higdon is available on the SEC's website at 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

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, LLC, 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, LLC, may receive payments from partners in Matisse Absolute Return Fund who are not clients of DPS.

Supervision:
Mr. Torkelson, as the principal of the firm, has no direct supervisor. Mr. Torkelson may be reached at (503) 210-3001.

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

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.

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

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:

In his role as Portfolio Manager, Mr. Boughton receives additional compensation for client assets that are invested in the closed-end fund strategy. Consequently, he may have an incentive to encourage clients to use this strategy over other strategies which do not pay the employee additional compensation.

While this potentially creates a conflict of interest, Mr. Boughton's primary role is as the firm's Portfolio Manager, and he does not act as an advisor to clients. Additionally, Mr. Torkelson reviews all such recommendations based on suitability factors prior to client assets being invested in the closed-end fund strategy. This employee compensation does not affect the fees paid by the client, and clients of DPS are not charged a higher advisory fee for using any particular strategy recommended by the firm.

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.

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:

None

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.

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:

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. Flichtbeil on behalf of the firm.

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.

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

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.

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:

Finance and Marketing; 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.
