Chris Lakumb	So, Chris, let's start with you for just a quick update on what's going on in the municipal market overall.
Chris Roberti	Yeah. Thanks a lot, Chris. Thanks for having me. So, if we look at the first quarter of this year, municipal market overview, a very mixed quarter in terms of investment grade versus high yield performance. If you look at the investment grade municipal bond index, Bloomberg, it was actually down 39 basis points in the first quarter. Stark contrast to what you saw in the high yield municipal index where credit outperformed, that index was up actually 119 basis points. So pretty significant difference than what you would see typically. Part of that is high yield municipal spread compression, lighter supply on that piece of the market. If you look at the Fed narrative, it was actually relatively steady during the quarter. Certainly changed a bit since then. But during the quarter, relatively steady, although you did have some Treasury volatility, but ultimately yield ended up mostly in the same place from the start to the end of the quarter. While high-yield municipal supply was lighter, which is why high-yield municipals outperformed, broad market issuance was actually up in the first quarter, up 26% issuance versus the first quarter of last year. However, this issuance has really been met with solid demand so far. So that's a little bit of a backdrop. I'll hand it over to Steve for some comments.
Steve O'Neill	Thanks, Chris. Yeah, I'll start off with the closed-end fund markets. When we think about our market, closed-end funds have done pretty well for the first three months of the year, maybe call it on average, muni closed-end funds were up about 3%. And a good amount of that came from discount narrowing, about 200 basis points. But here in April, as rates have gone up, discounts have widened out again and NAVs (net asset values) have declined. And so, kind of a takeaway would be muni closed-end funds today, here in the third week of April, are about flat for the year. From a discount perspective, I think we kind of kissed 10% discounts on average at the end of the quarter. That compares to a low of about 13% discounts back in October 2023. But as I mentioned, this month's weakness has pushed closed-end funds back out to about 11% discounts, which puts us in the kind of 97th percentile of cheapness going back about 25 years. I guess just adding a little bit more color on the closed-end fund market, leverage costs remain a concern. I think that's what's keeping many investors away from the space, the high leverage costs and kind of the narrow, if not negative, spread between the cost of leverage and the assets. That leverage cost is still in the 4, 4 and a half percent range. But that being said, closed-end fund sponsors are increasing their distributions nonetheless. That shouldn't give indication that they are earning more. It's just that there's been a decision across many fund sponsors to return capital. And the logic there is to give investors some liquidity at net asset value while, I guess, the closed-end fund market and investors more broadly wait for a decline in short-term rates. And so, all that said, not a lot has happened in the closed-end fund market to date. We're roughly right where we started from a price total return perspective and discounts remain historically attractive.
Chris Lakumb	Thanks, Steve. Before we go back to Chris, maybe to talk a little bit about the municipal bond sleeve within the funds. Any top-level asset allocation or sleeve allocation comments you'd like to make?
Steve O'Neill	Yeah. Good question. I guess we run the funds with our partners at MacKay in a similar way. Most funds, we've got about 40% of the portfolio invested in closed-end funds. Coincidentally, we also have about 40% leverage across these portfolios. For the quarter, within our own sleeves, we made trades and adjustments. But between MacKay and RiverNorth, we didn't transfer any capital in the first quarter of 2024. But during this weakness in April, we've pulled some capital from those guys. And I think the process continues to work really well. In the most recent example, we scooped up some cash that they had raised from unwinding some of their tender option trusts and were able to quickly put that to work and closed-end funds trading at, I think at the time, about 15% discounts. And so, we continue to really like the ease of transfer between the two sleeves. And I would expect that we continue to increase close-end fund exposure upon further weakness.
Chris Lakumb	Thanks, Steve. That's good color. Chris, how about we go back over to you if there is anything you'd like to share specific to the McKay muni sleeve within the funds?
Chris Roberti	Yeah, sure. As Steve noted, we're always highly active in the portfolios, active manager, relative value shop that we run here at McKay Municipal Managers. If we look at the quarter-- actually, let me start with what weighed on performance a bit detracted from performance was really yield curve positioning. Exposure, overweights on the longer end of the yield curve was a bit of a detractor as you had a bit of a steepening effect on the longer end in the first quarter. However, offsetting some of that was our Treasury Futures hedge, which we have in place. It's really designed to dampen down duration for times of rate sensitivity. And we did see some rate volatility, and that hedge actually helped the portfolio or

the sleeve, I should say. And then the third thing that I wanted to mention, this was a contributor, as credit outperformed, as I alluded to at the beginning of the call, credit-sensitive pockets of the market, that added to the portfolio performance. So, for example, US territory exposures, Puerto Rico, US Virgin Islands, that did well during the quarter.

As it relates to just looking ahead in general for the municipal market, a few things that I would point out. First would be, the team is still really very constructive on the municipal market. I mean, if you just look at yields in general on the benchmark, the Bloomberg Municipal Bond Index, the yield to worst is 370. It's pretty high. There were times in 2021 at the tights, you were lucky to get a 2%. If you look at a 370 yield to worse, your tax equivalent yield on that for the top tax bracket is 6 and a quarter. Pretty compelling for an investment-grade segment of the market. That doesn't even include potential alpha on top of that through active management. The next thing, if you think about levels and cheapness, is also with a solid credit foundation. If you look at municipal credit, it's not all rosy, but largely rosy, we would say. Very solid credit fundamentals as upgrades have outpaced downgrades for some time now. There are some pockets of weakness around the perimeter, but not a broad issue, right? We see a little bit of weakness here and there in higher education, in areas, senior living.

I think the question for some is, "All right, what's the real catalyst for stronger municipal returns as we look ahead?" Well, first would be, again, attractive levels, solid credit fundamentals. One of the catalysts we often see in our market is flows, right? 70% retail, mutual fund flows in either direction are highly influential. And you've had better flows in the mutual fund world year to date, but not massive inflows. And so, one of the catalysts we think could be not only attractive levels, but we do think investors will start to refocus again on the value of tax-free income. They've been in a bit of a distracted way, focused on macro rates, inflation, and rightly so. We think the sticker shock of the tax bill this year from the exposure many have in T-bills, CDs (certificate of deposits), money funds, the sticker shock of cutting that check will help them to refocus and re-emphasize the value of tax-free income again. And if and when that happens, that tends to drive more significant mutual fund flows in the municipal market, which can help boost returns even further. So that's the backdrop as we look ahead.

Chris Lakumb: Steve, anything else you'd like to add with respect to the outlook for muni closed-end funds and our sleeves within the various funds specifically?

Steve O'Neill: Yeah. Thanks, Chris. I mean, I guess as we look forward, I mentioned the cost of leverage being an issue for closed-end funds earlier, and that really hasn't changed. But I think fund sponsors are doing what they can in the meantime. I mean, the reality is, it's tough to de-leverage today and kind of lock in losses on a bond portfolio, especially to Chris's point about the attractiveness of the tax-exempt income that they own. And so, I think, really, the strategy for closed-end funds broadly from kind of a board level and a manager perspective is to maintain the leverage despite the high costs and essentially wait for short-term rates to decline. And while they wait, I certainly think our partners at McKay are the most active muni managers in the space. But the other managers are quite active as well, and they're trying to increase the book yield to their portfolio. And so, the idea really is to create the best asset portfolio you can, get the best book yields possible in this environment, and really wait for that cost of leverage to come down.

And when it does, then the close-on funds, earnings power will really shine. I think that that results in further dividend stability, potentially some dividend increases, and a significant narrowing in discounts. But again, the reality is, it is somewhat of a waiting game for most closed-end funds. That being said, we've been trading closed-end funds daily since 2007. And I don't think there's been a time where there's higher institutional ownership in the closed-end fund space. And so that's really putting some unique pressure on funds and boards to try to solve this discount problem. Again, I'd say most prefer just to wait it out. But I think some companies, some closed-end funds, won't really have that option. We'd expect mergers and tender offers and liquidations to pick up as institutional investors use their vote to try to close the gap on the discount.

The last thing I would say, just in terms of kind of volume, there continues to be a lot of eyes on the space. In the fourth quarter, we were trading about-- River North, but the space in general was trading about $170 million of closed-on funds a day. That's come down about $50 million on a daily average to about 120. But that's pretty decent liquidity for investors to kind of come in and out of the space. And I think given the attention on discounts and then to repeat again, Chris's point about the attractiveness of tax-exempt income, there really does seem to be more investors than ever, institutional investors, whether they're hedge funds or crossover investors that are long-only, there's just a lot of attention on the space. And I think it's well bid from kind of a floor perspective. It's hard to see discounts going a lot wider than where they are today. I mean, again, we're in the 97th percentile. But I do think a bit of good news really gets this momentum going. And I think closed-end funds broadly have a pretty long runway. And so, Chris, to answer your question about kind of the outlook as it relates to our sleeves, we want to continue to position ourselves in a way that we can really capture that upside. And that probably means some workloads and fun exposure as we go along in the year.

Chris Lakumb Great. Thanks, Steve.

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