Chris Lakumb — All right. Chris, let's start with you if you want to give an update and overview on what's been going on with the municipal market.

Chris Roberti — Sure. Thanks a lot, Chris. Third quarter, municipal market, very solid in terms of market performance considering the backdrop and the technicals. If you look at the index, the Bloomberg investment-grade municipal index for the quarter, it was up 2.71%. The high yield municipal index went up 3.21%. Again, a very solid quarter. Also a quarter with strong issuance, once again, as we've seen this year, total supply in the quarter, 136 billion, with issuance still up roughly 30% year-over-year. So that's a pretty big number, and the markets digested that pretty well. Municipal yields have hung in there pretty well considering that backdrop. Fixed income markets have rallied amidst a backdrop where municipal fund flows and flows in general have continued to be pretty strong. The macro landscape has evolved. This is contributing. More muted inflation. Obviously, we had a Fed cut rates. The Fed cut rates by around 50 basis points. But also, with that increase in supply, while it's been pretty well digested, that has caused municipals to lag Treasuries a bit. So that's a bit of a backdrop, and maybe we hand it over to Steve.

Chris Lakumb — Appreciate that, Chris. Yeah, Steve, if you want to cover what's been going on with Muni closed-end funds.

Steve O'Neill — Sure. Thanks, guys. Yeah, Chris highlighted that the index was up about 3% for Munis broadly, and closed-end funds did twice as well. And so, for the quarter, Muni closed-end funds were up about 6%. The difference between the broad-based index and the closed-end fund market is discount narrowing, and we saw a lot of closed-end funds in the third quarter. Round numbers, discounts were about 10% at the end of the second quarter, and we closed right around 7% discounts at the end of the third quarter. I would say that it was fairly steady demand throughout the quarter. Investors have, I think, been conditioned to buy closed-end funds when short-term rates are coming down. That's both the expectation and reality, and so we saw new buyers coming into the closed-end fund market, kind of discounts that have been kind of stuck for a while, getting broken free from new demand. And I think it was notable because volume remained high. Investors were selling in this market. We saw some pretty sizable institutional selling, but retail and, I guess, other new investors took the baton and continued to push discounts narrower. And so, again, great quarter for closed-end funds. The headline number was plus 6% price return for the quarter.

Chris Lakumb — Thanks, Steve. Sticking with you, do you want to provide an overview on what's been going on at the Fund level? So, duration, credit quality, sleeve allocation between the River North strategy and the McKay strategy. All of that would be helpful.

Steve O'Neill — Yeah. No. Good question. I would say not much changed during the quarter. Touching on the topics that you mentioned, duration was relatively unchanged. Credit quality was unchanged. The leverage of the funds was right around 38%, 38%. So that was unchanged, and our allocation between MacKay and River North was unchanged as well. I think what we've done in the past year is set ourselves up for nice returns that we've had year-to-date and continued optimism from here. When we look back a year ago, McKay and RiverNorth worked together to increase the closed-end fund allocation in the portfolios. And so, across the Funds, we got our closed-end fund exposure north of 60%, and that's a percentage of our equity capital, and a lot of those trades were put on in the fourth quarter. New trades and also tax loss harvesting within our own portfolios, and so when we look at the portfolio today, we're sitting on a lot of short-term gains. And so, we've been less likely to book a gain year to date, and we've also had the top-down view that we want to maintain, really, an aggressive level of closed-end fund exposure. And so, when I say not much has changed, that's been thoughtful. It's thoughtful towards taxes. It's thoughtful towards our bullishness on closed-end funds from here. And the other factors, credit quality and leverage, those generally aren't tactically changed. And so, again, pretty steady quarter, but it's one that we've been happy that we set ourselves up for success 9 to 12 months ago.

Chris Lakumb — Thanks, Steve. It's a good overview. Chris, why don't we go back to you if you want to talk more specifically about the MacKay strategy within the Funds? Any updates there?

Chris Roberti — Sure. Thanks, Chris. Yeah. For the sleeves that the team MacKay Municipal Managers overseas in the River North Funds, I'm going to talk about contributors and detractors for the quarter. If we look at things that worked, a few things. One is our local GO (general obligation) bond exposure. Special tax bonds were additive, and exposure to the transportation sector helped at the same time. Also adding to performance was some of the longer duration exposures that we had, given some of the rate environment that we saw this year, I should say, in the quarter. Detracting was exposure to our Treasury Futures hedge. As Treasury yields dropped, that is really designed to dampen duration but still keeping income on the long end of the curve. Having that exposure was a bit of a detractor, and also a detractor was having an underweight to the hospital sector, which did well. We do think that the strategy remains well-positioned following roughly 18 months of tax loss swapping and also additions that we've made to premium coupon bonds. So, we think we're well-positioned from that point of view.

Chris Lakumb Thanks, Chris. Let's just open it up for any final thoughts. Where do we go from here? Outlook, etc. So, Chris, why don't we start with you?

Chris Roberti Yeah. I mean, if we look ahead a bit, the team does still remain very constructive on the municipal market. We do think taking an active approach is key in this market, particularly now. Even though you've had solid returns in 2023 and year to date, we do believe there's still one way to do well in this marketplace. I mean, if you think about the Bloomberg municipal bond index, the yield-to-worst carry is still a 3.4, right? Think about that in terms of tax equivalent yield. Top bracket, you're a 5.8 roughly, and then you add any sort of state and local advantage tax-wise that you're well into the sixes with some additional alpha potential by taking an active approach. That's amidst the backdrop with very solid municipal credit fundamentals. You do have to navigate and pick your spots, of course, through all-day research credit-wise, but if you think about the broad market, you've had two-to-one upgrades versus downgrades. That's just basically owning the market. Of course, all eyes are on the election as that's coming up very quickly. Overall, we don't anticipate major disruption post-results. We do believe, regardless of who wins the election, that taxes either remain high or trend higher, which means the value of tax-free income remains high or trends higher. So, we're, again, constructive on the marketplace as we look ahead.

Chris Lakumb Thanks, Chris. Steve, how about you?

Steve O'Neill Sure. I guess I would just emphasize that we remain really bullish and constructive on closed-end fund discounts here. You've got to look elsewhere in the market. We're looking at taxable bond funds. Different animal, but same universe, and it's interesting to point out that taxable closed-end funds are trading at near premiums. And so, on average, you've got taxable bond funds trading at roughly net asset value (NAV), and you still have many closed-end funds trading at 7% discounts. A big difference or factor there is just the absolute yield. Chris pointed out tax equivalent yield, and investors broadly understand that. But it still is the case that when investors come to the closed-end fund market, they go to the highest yielding funds first. That tends to be, obviously, the taxable bond funds that have more spread in the underlying assets, and so those have bounced back first. But I do think munis continue to normalize-- a 7% discount for munis is still quite wide on a historical average, and so we think they're cheap within the closed-end fund space. They're cheap relative to their history. And I think one notable change, which is still underappreciated in the market, is just Muni closed-end funds decision to return more capital.

And so historically, Muni closed-end funds really just paid out 100% of what they earned. But more recently, as a discount management tool, closed-end fund sponsors have increased the distributions to return some capital. And I think just the shareholder friendliness of that action combined with the embedded alpha of buying something at a discount and getting your capital back at NAV continues to provide support for the space in a way that's not reflected historically. And so, again, you just kind of look at your discount history, and you'd say, "Yeah, these Munis look pretty good." But I'd layer on top of that some of the shareholder-friendly changes that sponsors have made, and I think that adds further support. So, we're really continuing to maintain positions and remain optimistic for the intermediate future.

Chris Lakumb Thanks, Steve. And thanks, Chris. Appreciate the time.

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