RIVERNORTH

4Q24 RiverNorth Municipal CEFs Audio Review Transcript

Chris Lakumb	All right, Chris, why don't we start with you if there are any high-level comments you'd like to make around the municipal market overall?
Chris Roberti	Sure. Thanks, Chris. So, if we look at the fourth quarter of 2024, definitely one of fluctuation in the municipal market. All in, the investment-grade municipal index was down about 122 basis points. The high yield municipal index was down roughly 108 basis points. Each month in the fourth quarter, everything just looked a little bit different month by month, whether you're factoring in supply, interest rates, retail demand, and credit ratings. Definitely some ebb and flow. All that being said, municipal yields were about 30 to 54 basis points higher at the end of the fourth quarter relative to the end of the third quarter, really much stemming from economic uncertainty and the Federal Reserve path as we go forward in terms of how that's being perceived.
Chris Lakumb	Great. Thanks, Chris. And with that as a backdrop, Steve, would you like to provide an overview of what you and the team have been seeing in the muni closed-end fund space?
Steve O'Neill	Sure. Thanks, Chris. I'd say that a lot of the action happened in the last 30 days of the year. At the end of the year, interest rates popped a bit. The 10-year (Treasury Bond) went up about 40 basis points. And that pushed bond prices lower. And then ultimately, it pushed closed-end fund market prices lower. And so what started off as like a good year still ended up to be a good year, but a great year through November. So closed-end fund market prices were up about 12% through the end of November. So that was year-to-date through the end of November. And then they dropped about 5% during the month of December in conjunction with the rise in rates that I mentioned earlier. And so, what happened was investors, all of a sudden, had some losses in their portfolio. So, they crammed the tax loss selling season into the last 30 days of the year, which was really interesting because kind of day-to-day, muni closed-end funds trade about $100 million. But in December, they were 2X that, and so about $200 million a day. And then a handful of days, we saw volume in excess of 300 million. And so, a lot of background to say the year was good, but the last month was really bad. Market prices, again, were down about 5%. And that's a lot to do, again, with just the tax loss selling. There was a lot of supply in the remaining months of the year. Of course, net asset values declined as well with the move in rates. But most of the move in closed-end fund prices were due to discount widening. And so, I would say it was a good year overall. But I mean, the key observation was that the end of the year was really quite volatile and interesting for closed-end fund investors.
Chris Lakumb	Thanks, Steve. So, sticking with you, in light of the closed-end fund discount volatility that you just referenced, any top-level asset allocation or sleeve allocation comments you'd like to make?
Steve O'Neill	Yeah. So, I mean, at a high level, RiverNorth and MacKay are co-managing the portfolios. We run about 40% of the total assets across the funds. Coincidentally, the funds also have about 40% leverage. Going into the end of the year, a few of

the funds had a little bit lower leverage. And so, we had borrowed some money into the year-end selloff to buy more closed-end funds. But the end result is we're trying to get most of the funds back to about 40% of managed assets. That's how we allocate between the sleeves. I think as we manage the portfolios and investors as they think about the exposure that they own, some risk stats that I find important are duration. We're about a seven-year duration on managed assets or total assets. That duration came in a little bit during 2024, just as rates had come up. The portfolio that we own at RiverNorth, obviously, we're investing in closed-end funds. The average discount on our portfolio at year-end was right around 10%, which is narrower than the start of the year. At the beginning of the year 2024, discounts were around 13%. So, we had 300 basis points year over year. But as I mentioned earlier, December was a week month, and discounts actually widened out 300 basis points. And so, we had some volatility on discounts. Chris, to your point, that gave us an opportunity to add to some positions. But I would say year-over-year, kind of the headline numbers, total closed-end funds exposure, duration, and leverage. Those were fairly constant throughout the year. And beneath the surface, we made tweaks to get the funds in line with each other. And also, as always, trying to optimize the portfolios for future alpha and also being cognizant of the tax position, looking for tax loss harvesting where it's available.

Chris Lakumb: Thanks, Steve. That's very helpful. Chris, why don't we go over back to you if there are any comments you'd like to make specific to the MacKay sleeves?

Chris Roberti: Sure. Thanks, Chris. And yes, for the sleeves that we manage for the RiverNorth funds, we sort of alluded to the fact there's already been some larger impacts, or I should just say, some more ebb and flow month by month. And that tends to bring bigger themes. And there's really two main attribution factors for the quarter. The first is what contributed. Really, the treasury futures hedge in the sleeve was very, very helpful. And that's really designed as a paired strategy relative to what we think is the best part of the yield curve, pairing that with treasury futures hedge as a way to dampen down duration a bit. And so that was helpful in the context of some rate volatility. And then a detractor was an overweight on the long end of the municipal curve. As you might imagine. 20-plus year bonds was a detractor. In a general sense, we are seeing more normalization of municipal yield curve, a more traditional steepening. And we're going to take advantage of that. You'll probably see us backfilling in our general portfolios, some of that intermediate segment of the curve as that normalizes. The credit upgrade landscape that we've been seeing over the last couple of years, that is decelerating a bit. It's not like we're overly concerned. There's still plenty of upgrades, but you're seeing a little bit of a deceleration of credit upgrades in the marketplace. And as always, we always talk about mutual fund or just municipal flows in general. That's going to always remain important. And we'll continue to monitor that activity in the marketplace.

Chris Lakumb: Thanks, Chris. Why don't we stick with you if there are any final outlook or thoughts you'd like to share with our listeners with respect to the municipal market overall or anything you'd like to highlight within the RiverNorth, MacKay strategies?

Chris Roberti

Sure. As we look ahead, one of the things the team does every year is publish our top five insights for the year. You can see that on the Muni 360 podcast or muni360.com. These are our macro views and themes we implement in the portfolios. A more high-level kind of key takeaway approach that I'll go through right now, one would be, we think the old normal is back and we think investors should prepare for it with municipal allocations in a meaningful way. We've had a very significant period of time with a lot of macro rate dominance, if you will, as the story. And we think some of the more traditional asset class nuances will return. And that includes in the muni world, yield levels are compelling still. So, one theme is we do think the tax-exempt nature of munis persists. You hear that noise from time to time in DC around, "Will that be removed from the market or cut back in the marketplace?" We think that's a very low probability. The savings of doing that in DC is very small relative to the deficit. It's a very popular attribute, and there's a high correlation to muni investors to those who vote. So, we think the muni exemption stays intact. The second is we think investors and us as active managers will plan to capitalize on the supply wave, which has been high in our market. On one hand, that tends to add some weight to the market, but it is a buyer's market that we see in the future, priced to sell. Our active team can influence structure in the marketplace. You have some bifurcation where we can capture value relative to large liquid deals versus some more esoteric deals. So that's a theme. The next theme is involving the investment grade market, where I think most people think it's a very kind of parallel moving market where everything's the same. It's really not, and particularly this year.

We think security selection in the IG investment grade market will be key. Part of that is on the heels of stimulus, some states we've seen as pragmatic, others not as such. Therefore, you might see some upgrades versus downgrades in the investment-grade market. And that factors in the spread differential and relative value opportunities, which we're poised to capitalize on. The next insight focuses on high yield in general. You've seen a lot of outperformance in high yield municipals versus investment grade. 500 basis points of outperformance last year, which is much higher than what you typically see. We don't expect that this year again, but you could get some high yield municipal outperformance again this year. Part of that is there's just less issuance in the high yield market munis versus IG. So the technicals will play a factor in our opinion. Plus, we think you might tend to see some upgrades in the marketplace in high yield as well. So that could play a role also. And last but not least, I think we've all seen with a lot of dollars sitting in T-bills, money funds, we do think shorter maturity municipals should outperform cash-like instruments, and we will express that in the portfolios we run and the sleeves we run for RiverNorth as well. In a shorter-term strategy, for example, or that part of the curve, you're getting more durable tax-free income. It alleviates reinvestment risk, and it keeps the total return on the table, right? And so those are some of our key themes for the year. We are constructive and really still believe in taking an active approach in the marketplace.

Chris Lakumb

Thanks, Chris. And before we get to Steve, I would just reiterate that the insights you all put together are, I think, very helpful and interesting and thoughtful. And then I'll also give you the shameless plug that-- and correct me if I'm wrong here. But I think roughly mid-year, you guys will come back and kind of provide a report card on how things are going with respect to those five insights, what may have changed, etc.

Chris Roberti — We will absolutely do that, Chris. Thank you.

Chris Lakumb — Steve, any final thoughts from you with respect to the closed-end fund market or the river north side of the Muni closed-end fund portfolios?

Steve O'Neill — Yeah, sure, Chris. I guess I would highlight what I think is some nice dispersion in the market compared to the end of 2023 when most discounts were trading on top of each other. Now we're seeing some, spread in the market, very similar closed-end funds trading at 5 to 6 percent differences in their discount. And that creates opportunities for us to rotate the portfolio and to press names that we think can outperform. And so, the market volatility that we've seen in the past 60 to 90 days kind of opened up the field a bit for us to make some new investments in the portfolio and again, reposition for what we think is a pretty positive backdrop for closed-end funds. We'd say that although absolute level of rates remains high, it feels like the volatility of those rates could potentially come down, which would certainly benefit closed-end funds from here.

Chris Lakumb — Right. Thanks, Steve.

RiverNorth Opportunistic Municipal Income Fund, Inc. (RMI), RiverNorth Managed Duration Municipal Income Fund, Inc. (RMM), RiverNorth Flexible Municipal Income Fund, Inc. (RFM), RiverNorth Flexible Municipal Income Fund II, Inc. (RFMZ), RiverNorth Managed Duration Municipal Income Fund II, Inc. (RMMZ): Credit Risk - a borrower may be unable to make interest or principal payments when they are due. Funds that invest in Municipal Bonds rely on the ability of the issuer to service its debt. This subjects the Fund to credit risk in that the municipal issuer may be fiscally unstable or exposed to large liabilities that could impair its ability to honor its obligations. Municipal issuers with significant debt service requirements, in the near-to mid-term, unrated issuers and those with less capital and liquidity to absorb additional expenses may be most at risk. To the extent the Fund invests in lower quality or high yield Municipal Bonds, it may be more sensitive to the adverse credit events in the municipal market. The treatment of municipalities in bankruptcy is more uncertain, and potentially more adverse to debt holders, than for corporate issues. Interest Rate Risk - the value of Municipal Bonds, similar to other fixed income securities, will likely drop as interest rates rise in the general market. Conversely, when rates decline, bond prices generally rise. Investments may include securities that have a rating that below investment grade, including "high yield" securities. High yield bonds are subject to interest rate risk. If rates increase, the value generally declines. Leverage is a speculative technique that exposes a closed-end fund to greater risk and increased costs than if it were not used. The use of leverage may cause greater volatility in the level of a closed-end fund's NAV, market price and distributions on its common shares. Leverage will also result in higher fees to the closed-end fund manager because the amount of assets under management will be included in the Fund's managed assets. There can be no assurance that a closed-end fund will use leverage or that its leveraging strategy will be successful during any period in which it is employed.

Investors should consider a Fund's investment objective, risks, charges, and expenses carefully before investing. Each Fund's prospectus and most recent periodic reports contain this and other important information about the respective Fund and may be obtained by visiting rivernorth.com/literature or by calling your financial professional or RiverNorth at 844.569.4750.

Marketing services provided by ALPS Distributors Inc.
Not FDIC Insured | May Lose Value | No Bank Guarantee