RIVERNORTH

1Q25 RiverNorth Municipal CEFs Audio Review Transcript

Chris Lakumb	Good morning, everyone. Chris, let's start with you if you want to recap the municipal market overall for the first quarter.
Chris Roberti	Absolutely. Yeah. I'll be touching on the first quarter, but also sharing a couple of points on April, given the obvious volatility we've seen. And it does set up an attractive opportunity, we think. But looking at the first quarter for now, the Bloomberg Municipal Bond Index investment grade was down 22 basis points for the quarter. The high yield municipal bond index, Bloomberg's, was actually up 82 basis points. Much of that has to do with less supply and technicals, which we'll get into. In the first quarter, there were definitely some material yield curve adjustments in the market, particularly with focus in March. The municipal curve steepened by 55 basis points, which is a pretty big move. Municipals underperformed Treasuries in the quarter, especially in March. Now, why was that? Issuance was robust. 2024 was a record year for issuance. 2025 is yet another record year. It's up 20% year over year, and so that's part of the weight to the market. And some of that has to do with policy, getting it in before the election last year. And now this year, with some of the uncertainty in terms of tax policy, we think issuers are starting to act sooner rather than later. Plus, you've seen softer demand, more modest fund flows, which have been impacting the marketplace. Not to mention that March and even April is a historically weaker period for demand. Part of that has to do with tax season. Ironically, people sell munis to pay their tax bill. So that is some of the impact that we're seeing. Now, let's focus for a minute on April, given the magnitude of the volatility and the move we've seen in the marketplace. As I said, we do think it's setting up for a very, very attractive opportunity in the municipal market. We've seen volatility in all markets: rates, tariffs, fiscal policy, tax policy. As we've seen in other cycles, much like March of 2020, municipals have had more pronounced volatility than Treasuries and other taxable fixed marketplaces. Why is that? Much like other cycles, what are we seeing? Well, we're seeing more pronounced mutual fund and ETF outflows in the marketplace. There tends to be some fear and selling pressure given the retail nature of the municipal market. Couple that with a liquidity pullback. Banks and broker-dealers have, over the years, gotten lighter on their balance sheets. At the same time, in this cycle, given the uncertainty, our observation is that they're de-risking even further. So that's creating less two-way flow, less price support, and greater price velocity in the marketplace. Again, something we see every so often with these more significant moves. We do think that this is a temporary technical impairment. And as I said earlier, a really, really compelling opportunity and entry point. So, I figure I'd leave that back to you, Chris.
Chris Lakumb	Thanks, Chris. That's a good update. I appreciate you also giving some thoughts and commentary on the month of April as well, given the magnitude of the volatility we've seen across the board. So, appreciate that. Steve, why don't we turn to you if you'd like to provide an update on the municipal closed-end fund marketplace?
Steve O'Neill	Sure. Thanks, Chris. Yeah, I guess I'll just speak to year to date through the 16th of April so as not to confuse our listeners. On the closed-end fund side, closed-end fund market prices are down about 2 and a half percent year to date. Interestingly, their NAVs are down more, about 4 and a half percent. So, you've seen about 200 basis points of discount narrowing year to date. That takes the discount from about 9% at the end of December to about 7% today here on 4/16. Along the way, there's been a lot of volatility, as much as we've seen since COVID and before that, going back to 2020, not necessarily from an absolute discount standpoint. We've seen wider discounts as recently as the fall of 2023. However, the discount volatility has really been unprecedented. In the month of April, we've seen 6% swings in the average discount in just a day. And a large part of that, to Chris's point, is just the movement in the yield curve. You're seeing muni yields jump up and drop 50 basis points, which causes levered muni closed-end funds to print plus 5 or minus 5 percent NAV moves. And so, it's been a really difficult market for muni investors. Again, let me repeat that year-to-date performance for muni closed-end funds is down only 2 and a half percent. But the volatility that began in March but really accelerated in April has been really

unprecedented. And I would say that investors have certainly reacted by selling. We've seen daily dollar volume in the muni closed-end funds space, which is typically 100. It's been trending up to 150 million dollars of daily dollar volume. That went up to 400 million for a day in April. And so, what we're seeing, I would say, is a lot of fearful investors for the reasons that Chris mentioned: policy, interest rate volatility. But within the closed-end fund market, all that volatility has been amplified.

Chris Lakumb Steve, just before we turn back to Chris, you made a good point there about the importance of discount volatility from RiverNorth's lens. Can you maybe just add a little bit to that? I think a lot of the advisors we talk to and investors in closed-end funds become hyper-focused on just where's the discount, I buy it if it's at 10, or I buy it if it's at 15. But we've typically said buying wide discounts is great, but what interests us more is discount volatility. So maybe just a couple of minutes of additional color on why discount volatility is more important to us than just buying wide discounts?

Steve O'Neill Yeah. I mean, I guess I would agree with your comment, and I would also agree that the starting point matters. Let me kind of touch on the second point first. It is important, and I do find it to be very attractive where discounts are today. Larger muni closed-end funds are in the neighborhood of 7 to 11 percent discounts, and we find that to be really interesting. And so, therefore, we have a larger-than-usual allocation to closed-end funds. And so, with that as a starting point, we like the market. Despite the move in the asset class recently, we like owning munis in a closed-end fund wrapper. But to agree with your point, discount volatility creates a number of opportunities. It allows us to put new capital to work. It allows us to, what we think, optimize the portfolio, sell a closed-end fund that might not be the best short-term mean reversion opportunity. It also allows us, similar to our partners at MacKay, to do some tax-loss selling. And so, when you see a market with $400 million of daily dollar volume, imagine the RiverNorth team getting excited about moving positions in the portfolio and not only taking advantage of alpha opportunities but, again, harvesting some tax loss for our investors.

Chris Lakumb Thanks, Steve. That's helpful. All right, Chris, how about we go back to you if there's anything you'd like to highlight with respect to positioning, portfolio allocation, etc?

Chris Roberti Yeah. So, for the sleeves that MacKay Municipal Managers oversees in the RiverNorth funds, we have some contributors and detractors. Let's start with the detractors for the first quarter. Definitely, longer duration holdings had some impact as the municipal-to-Treasury ratios rose, yield ratios. Some of that has to do with supply and policy uncertainty, also the futures hedge, which is really-- this hedge is designed to dampen duration while capturing income on the most optimum parts of the curve. This did detract in the first quarter. It looks to be a bit additive as we look at this month so far, but definitely a detractor last quarter. And then also playing out well is high yield exposure, credit spreads tightening it down a bit relative to investment grade. There's less supply in the marketplace, so that has some impact there.

Chris Lakumb Thanks, Chris. Steve, back to you. Any additional comments you'd like to make on whether it's sleeve allocation between RiverNorth and MacKay, or anything specific to the RiverNorth sleeve beyond what I think you've already touched on, which was good commentary around reshuffling the deck, to use my terms, in terms of optimizing the portfolio?

Steve O'Neill Sure. Yeah. I guess I'd just highlight a point that Chris just made. The construction of this portfolio is one part closed-end funds, one part muni cash bonds, to be simple. But we also sell Treasury futures to lower the aggregate duration. And the selling of the Treasury futures has been a meaningful negative to performance year to date. And so, kind of unpack that, you've lost money on the hedge, and you've lost money on the longs. And so, the performance of this strategy has underperformed the asset class and other muni closed-end funds due to this hedge. Now, to Chris's point, that's turned around a bit here in April. And over the long term, we like the idea of reducing some of the duration with interest rate futures. But this is a market where this strategy has underperformed. Again, when muni-to-Treasury ratios increase or widen, that's underperformance on an asset class, and that can lead to a situation where you're losing money on both sides of the trade. That, I think, is just worth highlighting for year-to-date performance for the RiverNorth Funds through April.

Beyond that, in terms of positioning, to date, we've kept cash flow. We've used this opportunity to put the cash in the portfolio to work. That being said, as we think about the calendar year, we started off the year-- on the RiverNorth side, we had-- for most of the funds, all but one of the RiverNorth muni funds, we had borrowed additional capital on a bank line of credit to increase our closed-end fund exposure. That was a tactical trade to take advantage of some seasonal weakness. We had taken that off in March, and so we had essentially de-levered our part of the book. As we think about the opportunity set today, we're looking at potentially re-levering part of our portfolio to add more exposure to closed-end funds whose discounts are attractive, and market prices are significantly lower. That being said, we do have an overall leverage objective in mind for the fund. As investors know, we use tender option bonds on the MacKay portfolio as the primary source of leverage. Occasionally, we also borrow on a bank line of credit to make tactical trades.

As we think about potentially adding more leverage through the bank line of credit, we're cognizant of the overall leverage of the portfolios. And those numbers today are right around 40%. So, we might add additional leverage, which would be kind of a sleeve shift to put more capital in our sleeve. But we don't have a lot of room to do that because we're on kind of, I would say, the higher end of a normal range, right around 40%. That kind of matches up with our peer group, just specifically as it relates to leverage. Most closed-end funds today are in the high 30s, low 40s on a leverage perspective. So, kind of a long response to your question, but I do think the hedge is important to understand the portfolio that Chris and I mentioned. And then in terms of sleeve allocation, we've made some slight tactical shifts year to date. Fortunately, those were sales when the market was stronger, and we've yet to kind of put that leverage capital back to work in the midst of this current sell-off.

Chris Lakumb: Thanks, Steve. Chris, how about we wrap it up with you? And we'll open it up to Steve as well, but any final thoughts or outlook you'd like to provide that may be top of mind on the MacKay team?

Chris Roberti: Yeah. Thanks, Chris. And we do think this dislocation has really created a tremendous opportunity. We think it's a temporary technical imbalance we've got. And I think reflecting a little bit this year, back in January, we used the seasonally strong month of January to sell into the market to really look for new issues to provide opportunities to redeploy capital. We don't think there's any better time to do that than a time like today. At the same time, we were very active selling structures that had limited total return potential and then therefore swapping into longer-duration premium coupon bonds, which, again, this is the type of landscape to do that, just as an example. And I think investors are getting compensated. And I think taking an active approach in a market like this with full-time credit research has just never been more important. There are absolute dislocations for all of us to capitalize on, and we're well set to do that.

Chris Lakumb: Thanks, Chris. Before we move on to Steve for any final thoughts, I appreciate your comment about taking the opportunity to play some offense. I'll also mention that your team did a great update webcast. I think it was last Friday, and I understand the replay is now available, which I think dives a lot deeper into just kind of the general thought process of the team and the opportunity set and some of the things you're doing to play offense, etc., etc. So, for anyone who's interested in diving a little bit deeper, I would definitely track down that replay. Steve, any final thoughts on your end?

Steve O’Neill: Yeah. I guess I would just emphasize the shared view that the asset class looks really attractive. As we think about it from the RiverNorth perspective, sure, we've seen wider discounts. We've seen 12, 13 percent discounts versus 9 to 11 percent discounts today. But when discounts were wider, the asset class was actually less attractive. Today, you've got, in many cases, double-digit discounts on an asset class that hasn't been cheaper since the lows of March 2020. And so, I think that's a really interesting setup. And we're certainly not in the mindset that we need to wait for the widest discounts we've seen to put more money to work. We really like the asset class. We want to put more investor capital into the opportunity. And I think we're kind of lucky to have the opportunity to get that asset class at a really historically attractive discount. So very constructive on the outlook for the closed-end fund sleeve.

Chris Lakumb: Thank you, Steve. And thanks to you both for the time today. This update went a little bit longer than our typical one, but I think there was a lot more to talk about and interesting things going on. So, I appreciate the time.

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This information is provided for informational purposes only and should not be considered tax, legal, or investment advice. References to specific securities, asset classes, and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations. Opinions referenced are as of the day presented and are subject to change due to changes in the market, economic conditions, or changes in the legal and/or regulatory environment and may not necessarily come to pass.

Risk Information: Detailed information regarding the risks associated with RiverNorth Municipal Closed-End Funds can be found in each Fund's prospectus, respectively. The price at which a closed-end fund trades often varies from its net asset value (NAV). Some funds have market prices below their NAVs - referred to as a discount. Conversely, some funds have market prices above their NAVs - referred to as a premium. Investing involves risk. Principal loss is possible. Past performance is no guarantee of future results. Diversification does not ensure a profit or a guarantee against loss.

Risk is inherent in all investing. Investing in any investment company security involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Therefore, before investing in the Common Shares, you should consider the risks as well as the other information in the prospectus. Past performance is no guarantee of future results. Investments in the Funds are not appropriate for all investors and is not intended to be a complete investment program. The Funds are designed as long-term investments and not as trading vehicles. The Funds are closed-end funds and do not continuously issue shares for sale as open-end mutual funds do. Since the initial public offering, the Funds trade in the secondary market. Investors wishing to buy or sell shares need to place orders through an intermediary or broker. The share price of a closed-end fund is based on the market's **value.**

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.