RiverNorth Managed Duration Municipal Income Fund | RMM

MANAGER COMMENTARY

RIVERNORTH®

Q1 2020

Portfolio Review

As the COVID-19 pandemic spread though global capital markets, closed-end funds (CEFs) experienced a peak-to-trough drawdown of ~40%. While the market bounced back at the end of March, CEFs still experienced one of their worst quarters on record.

CEFs represented 38% of Fund assets with an average discount of -10.3%. Driven by tight spreads, the portfolio management team made a prescient call to de-risk a portion of the portfolio and raise ~ 10% cash (pre-crisis). That provided the fund with some dry powder to take advantage of widening discounts. Generally speaking, Q1 was not an easy time to "sell beta" (i.e. cash bonds) to increase CEF exposure, given the liquidity challenges in the muni markets (and fixed income markets in general). The Fund's duration hedge was a detractor from performance as US Treasury yields fell to the lowest levels on record in Q1 (the Fund generally shorts US Treasury futures to hedge duration per the Fund's mandate).

Notes from MacKay Municipal Managers

The rapid expansion of the COVID-19 pandemic around the world resulted in a significant risk off response in the global financial markets during the month of March. The municipal bond market's response to the crisis reflects the significant disruption to our economy, the financial markets and, of course, our personal lives. Over the past month, municipal volatility has surged and credit spreads have widened. The extreme volatility in the municipal market was primarily due to a liquidity squeeze that was exacerbated by a sharp repricing of credit risk. Municipal market technical conditions were upended as investors in municipal bond mutual funds and exchange traded funds sought to exit a market that offered little liquidity and resulted in severe price declines. During the month, variable-rate demand note (VRDN) yields spiked to over 9% and the new issue market was shut down.

The impact of the COVID-19 pandemic has created a massive credit shift in the municipal market. With the mandatory stay-at-home requirements and the closing of large segments of the economy, including travel, leisure and retail, the economic conditions of state and local governments and related entities have grown weaker. Fortunately, the municipal market's credit condition at the start of 2020 was at an all-time high as state governments had accumulated large reserves due to post-Great recession record tax revenues. The magnitude of the impact will be a function of the duration and the severity of the crisis as well as the specific geographic location of the credits. However, MacKay Municipal Managers is focused on specific bonds' credit security structures that include additional liquidity and reserves to potentially offset short-term financial losses. Related to the Municipal Bond Income strategy within RMM, we increased the quality of the holdings, and cash positions prior to the crisis and were able to redeploy cash at adjusted levels during the heightened volatility.

In the weeks and months ahead, we will continue to remain vigilant from a credit surveillance perspective with respect to those sectors and obligors that have come under significant pressure in the current economic slowdown. While many headlines have been written about the susceptibility of the municipal market, it is our belief that the strong security features and monopolistic nature of many of the credits within the marketplace will enable them to weather this unexpected shock. Admittedly, much about the impact of the virus is unknown at this point, but we believe that this presents a very attractive long term investment opportunity for those relative value managers with the experience to navigate the current dislocation and investors willing to accept volatility in the short term.

Risk Information: See the prospectus for a more detailed description of Fund risks. Investing involves risk.
Although the income from the Fund's municipal bond investments is generally exempt from federal income tax, you may owe taxes on any capital gains realized through the Fund's trading or through your own redemption of shares. For some investors, a portion of the Fund's income may be subject to state and local taxes, as well as to the federal alternative minimum tax. 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. Diversification does not ensure a profit or guarantee against loss. An investment in the Fund is not appropriate for all investors and is not intended to be a complete investment program. The Fund is designed as a long-term investment and not as a trading vehicle. The fund is a closed-end fund and closed-end funds do not continuously issue shares for sale as open-end mutual funds do. Since the initial public offering, the Fund now trades 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. 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.

Definitions:
Beta reflects the sensitivity of a fund's return to fluctuations in the market index. A beta of 0.5 reflects half of the market's volatility as represented by the Fund's primary benchmark, while a beta of 2.0 reflects twice the volatility.

A variable-rate demand note (VRDN) is a debt instrument that represents borrowed funds that are payable on demand and accrue interest based on a prevailing money market rate, such as the prime rate.

Investors should consider the investment objective, management fees, risks, charges and expenses of the Fund carefully before investing. The Prospectus contains this and other information about the Fund. For a current Prospectus, call toll-free 844.569.4750 or visit rivernorth.com. Please read the Prospectus carefully before you invest.