Chris Lakumb

Let's move to the RiverNorth DoubleLine Strategic Income Fund, ticker symbol RNSIX and RNDLX. And Steve, we could start with you if you just want to talk big-picture portfolio allocation and how you're thinking about allocating capital across the three different sleeves of the Fund.

Steve O'Neill

Sure. Thanks, Chris. Looking at RNSIX, RiverNorth's managing about one-third of the capital with double line managing the balance. Within our sleeves, we've had a pretty steady allocation to closed-end funds at about 20%. We've also had kind of an anchor investment in business development company debt. That's, call it, 6 to 8 percent. And the remainder of our portfolio is some cash we have on hand and also an investment in an affiliated high-yield fund. And so no big changes at the portfolio level. I would say kind of bigger picture during the quarter; it was a strong first three months for closed-end funds. And so we actually had a pretty nice opportunity to monetize some real winners in the closed-end fund space. Names that narrowed 5 to 10 percent in some cases. And so that was exciting to be able to ring the register on some of those opportunities. But as quickly as that opportunity came to sell, we saw another opportunity to buy. And when we think about the month here in April with the backup in rates, closed-end funds have rolled over again. And so, kind of high level, not talking about our portfolio, closed-end funds on average started the year at about a 10% discount.

They're about a 9% discount here in the second week of April. And that's just kind of interesting because we went from the 95th percentile of cheapness, going back 25 years, to the 90th percentile of cheapness. And I think kind of the bottom line is that closed-end funds haven't really recovered from the 2022 sell-off. Closed-end funds on average trade at 3 to 4 percent discounts. And so although that doesn't sound like much to a value-focused investor like ourselves, that's the reality over time. And so to see 9, 10 percent discounts on average is why, because that means there's plenty of funds in the 12 to 15 percent range too.

And so again, here we are in the second week of April, and there is a lot of opportunity again. And so we had been monetizing investments in the first couple of months of the year, but now we're back to buying again. In some cases, buying the same funds. And so I think it kind of just speaks to the volatility in the market when there's high-interest rate volatility or high credit spread volatility, which on the latter we don't have today, but we certainly have high-interest rate volatility. That just kind of gets amplified in the closed-end fund market, and you just see valuation swings that can be interesting.

And I would say at these wide levels, a wide discount plus some choppiness should lead to us accumulating more exposure over time. I know we've kind of been in the 20% range for a period of time, but I think that's really been the right call given that closed-end funds have been stuck in the mud here for the last couple of years. But we certainly do want to increase our exposure just from this absolute discount perspective, but also just the fact that remains that we are certainly closer to lower short-term rates than we were a year ago.

I don't have a view of when that's going to be, but we certainly want to have a good amount of closed-end fund exposure to take advantage of any change in sentiment if and when it comes. And so kind of, in conclusion, not a lot of changes top-down this quarter in our sleeve, but we were able to rotate some closed-end fund exposure in the first quarter. And coming here into the second quarter in April, there's been a lot of new opportunities again. So hope to use this opportunity to take some more risk in our sleeve.

Chris Lakumb

Thanks, Steve. Corey, let's move over to you if you want to talk about what you all are seeing from a market perspective, maybe top-down perspective, and then how that is flowing into both the core sleeve as well as the opportunistic sleeve.

Corey Clermont

Yeah, of course. Thanks, Chris. Thanks for having me. So entering this year, the big question on a lot of investors' mind was how much was the Fed going to ease monetary policy by. And market participants were projecting nearly six 25 basis points cuts, which seemed overly optimistic in our opinion, really due to two reasons. First and foremost, inflation. I mean, you look through the data. Seemed like inflation to us would be sticky around this 3% level. And ultimately, the Fed, as they've said time and time again, they want to get back to that 2% level, which we take them at face value for. And then, secondly, economic strength in the form of a resilient labor market. I mean, US GDP (gross domestic product) growth has surprised the upside. Initial jobless claims have seemingly stabilized around 200K. And the unemployment rate is still sub 4%. So the current environment to us makes it really difficult for the Fed to justify rate cuts. And probably the biggest news throughout the first quarter was that inflation surprised to upside on all three of its prints. In addition, Powell was relatively hawkish at the last March FOMC (Federal Open Market Committee) meeting. And as a result, investors have repriced their monetary policy expectations to roughly two cuts for the entirety of this year.

So translating that to the fixed-income market, as Steve mentioned earlier, interest rate volatility was elevated, yields rose across the curve, and a stronger-than-expected economy continued the risk on momentum we saw in the final two months of 2023, which led to credit spread tightening. The Agg (Bloomberg US Aggregate index) comprised of Treasuries, investment grade corporates, yield and agency MBS (mortgage-backed securities), it had negative performance in the quarter as each of those components had negative returns, which were predominantly driven by rising rates. Investors who accepted that below investment grade credit risk were rewarded in the form of higher income and also credit spread flattening, which was led by credit spread tightening of mezzanine spreads.

So non-traditional fixed-income sectors, which tend to have less interest rate sensitivity, and they also tend to have a higher yield relative to those traditional fixed-income sectors were some of the best performers. The RiverNorth Core Sleeve has roughly two-thirds of its assets in those non-traditional assets, which led to strong relative performance in the first quarter, outperforming the Bloomberg US aggregate by 145 basis points. Our position in non-agency commercial mortgage-backed securities was the best performer for the quarter. And that was really driven by increased issuance. And we really saw the issuance market reopen, and those new issues were well met and actually oversubscribed. So it benefited the mark-to-market prices on the secondary market. Collateralized loan obligations were the second-best performer with their floating rate nature and their higher carry, given the inverted yield curve. And then the third-best performer was emerging market fixed income-debt, which primarily benefited from credit spread compression.

We did make one top-down move in the quarter. We moved our municipal allocation slightly under 1% in favor of Treasuries. We are one-third of a year underweight duration, which has benefited the core sleeve over the quarter as rates rose. Looking ahead, we could be looking to move in line with the duration of the Agg, which is 6.2. We're currently at 5.9. If rates get back to their local highs post-COVID, around that 5 handle on the 10-year, which we think is plausible. Looks like yields are going to test those highs and there's a lot of momentum behind it. Moving on to the opportunistic income sleeve. Again, roughly two-thirds of the portfolios is in that non-traditional fixed-income sectors, with the defining difference being where we're invested in the capital stack. And so in this sleeve, we tend to take on a little bit more credit risk. So further down the capital stack relative to that core sleeve. On a gross basis, we were up about 250 basis points. So outperformed the Agg by 3.25%.

And looking at sector performance, asset-backed securities are actually our best performer as we have some exposure to aviation-backed assets, which saw significant price increases in the first quarter. And then you had collateralized loan obligations and commercial mortgage-backed securities as the second and third best performance, respectively, largely for the same reasons I outlined in the core sleeve. Looking at the duration, it's roughly five years. So hurt absolute performance but benefited relative performance versus traditional fixed income. Yield to maturities still attractive. It's about 8.5%. So providing the potential to generate returns near the long-run average of equities with what we would expect to be lower volatility and less drawdowns. So with that, Chris, I will pass it back to you.

Chris Lakumb: Thanks, Corey. I think that was good. So let's just move over to OPP. So moving on to OPP, Steve, let's start with you. Any high-level asset allocation or portfolio updates you'd like to provide?

Steve O'Neill: Yeah. Thanks, Chris. Thinking about OPP, RiverNorth's managing about 35% of the assets in this portfolio. And then within our sleeve, we've got our capital kind of evenly split between square small business loans, which are short-term floating rate loans. And the other half in a combination of our closed-end fund and BDC income strategy or tactical income strategy, we call it. Kind of peeling back the onion a bit, I guess that the theme, to your point, Chris, is just short-duration high income. Again, the square loans are short-duration floating-rate loans. And then most of our non-square portfolio is actually invested in BDC debt, which is two to three years. Again, short duration. Relatively high spread compared to their rating. And what that leaves out is closed-end funds. We don't have a lot of closed-end fund exposure in the OPP portfolio. I do think that the opportunity is becoming interesting again with some of the sell-off here in April. So we might look to increase that allocation. But we are finding just a lot of value and are attracted to short-duration and high income at this point in time. And so most of our RiverNorth assets, again, are invested in square loans and also short-term debt issued by business development companies.

Chris Lakumb: Thanks, Steve. Corey, shifting over to you. And then if you want to drill into the opportunistic income sleeve of the portfolio, that would be great.

Corey Clermont: In OPP, the opportunistic income sleeve is roughly two-thirds of the portfolio in non-traditional fixed income sectors. So it led to strong performance. Gross basis was up about 220 basis points, outperforming the Agg by roughly 3%. And then our position in asset-backed securities were some of the best performers over the first quarter. We have exposure to some aviation-backed securities, which saw significant price gains. Collateralized loan obligations were the second-best performer. They have a floating rate in nature and a higher carry. And then to round out the top three, non-agency commercial mortgage-backed securities were the third best performer. And that was really a result of reopening of the issuance market, which was met with healthy demand. And those new issues were actually oversubscribed. So it benefited the mark-to-market prices on the secondary market. The duration of the portfolio, roughly five years, hurt absolute performance, benefited relative performance versus traditional fixed income. Yield to maturities still attractive. It's about 8.15%. Provides the potential to generate returns near the long-run average of equities, which with what we believe could have lower volatility and lower drawdowns.

Risk Information: Detailed information regarding the risks associated with RiverNorth/DoubleLine Strategic Income Fund can be found in its prospectus.

RiverNorth/DoubleLine Strategic Income Fund (RNSIX/RNDLX): Asset-Backed Security Risk – the risk that the value of the underlying assets will impair the value of the security. Borrowing Risk – borrowings increase fund expenses and are subject to repayment, possibly at inopportune times. Closed-End Fund Risk – closed-end funds are exchange traded, may trade at a discount to their net asset values and may deploy leverage. Convertible Security Risk – the market value of convertible securities adjusts with interest rates and the value of the underlying stock. Currency Risk – foreign currencies will rise or decline relative to the U.S. dollar. Defaulted Securities Risk – defaulted securities carry the risk of uncertainty of repayment. Derivatives Risk – derivatives are subject to counterparty risk. Equity Risk – equity securities may experience volatility and the value of equity securities may move in opposite directions from each other and from other equity markets generally. Exchange Traded Note Risk – exchange traded notes represent unsecured debt of the issuer and may be influenced by interest rates, credit ratings of the issuer or changes in value of the reference index. Fixed Income Risk – the market value of fixed income securities adjusts with interest rates and the securities are subject to issuer default. Foreign/Emerging Market Risk – foreign securities may be subject to inefficient or volatile markets, different regulatory regimes or different tax policies. These risks may be enhanced in emerging markets. Investment Style Risk – investment strategies may come in and out of favor with investors and may underperform or outperform at times. Liquidity Risk – illiquid investments may be difficult or impossible to sell. Large Shareholder Purchase and Redemption Risk – The Fund may experience adverse effects when certain large shareholders purchase or redeem large amounts of shares of the Fund. Management Risk – there is no guarantee that the adviser's or sub-adviser's investment decisions will produce the desired results. Market Risk – economic conditions, interest rates and political events may affect the securities markets. Mortgage-Backed Security Risk – mortgage-backed securities are subject to credit risk, pre-payment risk and devaluation of the underlying collateral. Preferred Stock Risk – preferred stocks generally pay dividends, but may be less liquid than common stocks, have less priority than debt instruments and may be subject to redemption by the issuer. Rating Agency Risk – rating agencies may change their ratings or ratings may not accurately reflect a debt issuer's creditworthiness. REIT Risk – the value of REITs changes with the value of the underlying properties and changes in interest rates and are subject to additional fees. Security Risk – The value of the Fund may decrease in response to the activities and financial prospects of individual securities in the Fund's portfolio. Special Purpose Acquisition Companies (SPACs) Risks – SPACs have no operating history or ongoing business other than to seek a potential acquisition. Certain SPACs may seek acquisitions only in limited industries or regions, which may increase the volatility of their prices. Investments in SPACs may be illiquid and/or be subject to restrictions on resale. To the extent the SPAC is invested in cash or similar securities, this may impact a Fund's ability to meet its investment objective. Structured Notes Risk – because of the imbedded derivative feature, structured notes are subject to more risk than investing in a simple note or bond. Swap Risk – swap agreements are subject to counterparty default risk and may not perform as intended. Tax Risk – new federal or state governmental action could adversely affect the tax-exempt status of securities held by the Fund, resulting in higher tax liability for shareholders and potentially hurting Fund performance as well. Underlying Fund Risk – underlying funds have additional fees, may utilize leverage, may not correlate to an intended index and may trade at a discount to their net asset values. Valuation Risk – Loans and fixed-income securities are traded "over the counter" and because there is no centralized information regarding trading, the valuation of loans and fixed-income securities may vary. Past performance is no guarantee of future results. Diversification does not ensure a profit or a guarantee against loss.

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