2Q25 RiverNorth CEF, BDC & SPAC Review Transcript

Chris Lakumb: Hello, everyone. This afternoon, we're going to be talking about the closed-end fund business development company ("BDC") and special purpose acquisition company ("SPAC") markets through the quarter ending June 30th, 2025. I'm joined by my colleagues Steve O'Neill, Jon Browne, Eric Pestrue, and Jack Bosco. And we're going to kick things off with Jack. Why don't you give us a quick lay of the land in terms of what you're seeing with respect to discounts across the closed-end fund space?

Jack Bosco: Thank you, Chris. Let's start with the municipal ("muni") space. At the beginning of the year, we were at about a 9% discount. We've come in 3% since then to end June with about a 6% discount. Shifting over to the taxable side, started the year with taxable bonds at a mere one-and-a-half percent discount. That's come in to be just tighter than a 1% discount at the end of June. Then, if you shift over to the equity side, started the year at about a 7% discount. That's is now about a 5% discount. Both those taxable bond funds and equity funds are generally tight relative to their history. But if you look inside of them, there's always bottom-up opportunities to find.

Steve O'Neill: Jack, this is Steve. Would you mind just providing some detail on the percentile of cheapness or richness for each muni's taxable bonds and equities?

Jack Bosco: Absolutely. So, we started the year wide in the muni space. Coming into the year, we were at about the 90th percentile of wideness. That's come into the 70th percentile at the end of June. Shifting to the taxable side, it's been tighter there with the taxable bonds starting the year at the 29th percentile of wideness, coming in a little bit to the 24th percentile. Looking at the equity fund. Started the year at the 50th percentile, and that's come in to about the 15th. So that one certainly tightened up the most.

Steve O'Neill: Great. Thank you. Yeah, I think it's interesting. When you look across the space, oftentimes people focus on the largest and most liquid funds. And I think it's kind of a rare time where you have the largest bond fund in the market. That's trading at a large 13% premium. You look at the equity funds. The largest equity fund is trading at a 7% premium. And then on the muni side, the largest muni fund is trading at a 3% discount. And that's kind of a similar characteristic as you go down the market cap ranking. A lot of larger funds are trading narrow. That's reflected in the average discount for the market. And so that really forces investors like ourselves to really explore the closed-end fund universe. There are about 400 funds. And so, to Jack's point, there's always bottom-up opportunities. But I would say, kind of from a market cap perspective or kind of a passive index approach to closed-end funds, the space is pretty rich. And so, we've really tried to have some differentiated views on some wider discount names, and across our portfolios, trying to concentrate exposure where we see value. But speaking of value, I guess

I'll tee up Jon Browne. There still remains value in the muni market year-to-date. And so, let's pass it on to him.

Jon Browne

Thanks, Steve. Yeah. So municipal bonds for the quarter had another sort of lackluster quarter. They post on an absolute and relative basis. They posted negative returns for various reasons, one of which is continuing to see sort of record amounts of new issuance and supply hitting the market. So, we saw, especially on the long end of the curve, rates rise. And so, therefore, unsurprisingly, looking at municipal bond closed-end funds on a net asset basis, we're down around 2% for the quarter. On a price basis, there were still negative returns, however, slightly better due to a bit of discount narrowing. From the end of Q1 to the end of Q2, we saw a little over 40 basis points of narrowing, which was a net positive, but clearly not enough to offset the asset class weakness. To what Steve was alluding to, not only in the overall closed-end fund space, but one of the things that we're seeing in municipal bond closed-end funds right now, which is interesting, is we're seeing a large dispersion amongst underlying funds.

So, as Steve pointed out, some of the larger funds are trading at 3% discounts, right? And so that's trading relatively rich to its sort of long-term history in the 25th percentile. But if you look under the hood, there are other funds that are available that are trading extremely cheap still. They're trading in the 90th to 95th percentile of cheapness. So, what I would say is right now, overall, muni closed-end funds as a space are still fairly attractive at their 70th percentile of cheapness. But really, if you look under the hood, it makes the case for active management, knowing which funds are trading at sort of attractive discounts, where the opportunity set arises. So, buying a sort of broad universe of muni closed-end funds, while we think that that's still attractive, we think that there is a lot of alpha to be made by active management in the space currently.

Chris Lakumb

Thanks, Jon. That's helpful. Steve, any thoughts on the BDC space? And again, that can be BDC equity or debt.

Steve O'Neill

Yeah, sure. On the BDC equity side, BDC returns and valuations were really strong coming into 2025. Most BDCs were at total return, all-time highs in the first quarter. Those highs proved to be a short-term peak. The market had about a 20% total return correction that bottomed around a couple of days after Liberation Day. And the market is fully recovered. So, it has been a volatile seven months for the BDC market. That certainly created some opportunities. We started adding BDC common stocks across our portfolios, really for the first time in a couple years. And so, I still think there's some value there, but a large part of that, it just came from the volatility. I'd say fundamentally, there really is very low non-accrual rates within the private credit market as represented by the public BDCs. There are a handful of names with some problem credits, and their valuations reflect that. But for the most part, you're not seeing the cracks in the credit market through the BDC equity space. On the credit side, there certainly is an opportunity every time there's a sell-off. And so, spreads widened a bit in April and kind of lingered for a little bit after that. But here, late June, now we're into July, I would say on average, BDC debt spreads are under 200 basis points, which still compares favorably to other parts of the investment grade ("IG") bond market. But I would say kind of out of our sweet spot, which is, we like to add Tier 1 BDCs closer to 300 over. And so, I would say in both cases, some volatility around the April timeframe. But where we are today, spreads are at the tightest levels of the year, and BDC equity prices are close to the highest levels as well.

Chris Lakumb Thanks, Steve. And last but certainly not least, Eric. I have it on good authority that SPACs are back. Maybe you could opine on what you're seeing in that asset class.

Eric Pestrue Yeah. That's definitely been the case lately. We've had a combination of high investor demand and a lot of sponsor supply. So, a lot of new SPACs lately. And a lot of that is actually-- recent popularity is in cryptocurrency-related acquisitions. The Bitcoin treasury type of situations have been doing well lately, I think, just in general in the markets. And one of the things about SPACs is they may have a general idea of a target when they're first getting started, but they can always change to what's hot. And right now, the cryptocurrency-related securities are doing well. And so, a lot of SPACs are focusing there, and the market's been pretty receptive lately. It's hard to say how long that will last, but for right now, definitely, it's working.

Chris Lakumb I'm just curious. Have we seen any crypto-related business combination take place? So, anything trading publicly yet? Or this is all still announcements of potential acquisitions or SPACs for them to seek an acquisition?

Eric Pestrue Yeah. It's still relatively recent. So there have been acquisitions announced. And so, we kind of know the target company, what their strategy is. With SPACs, between announcement and actually closing an acquisition is usually four months or maybe a little longer. And so, we haven't seen the acquisitions actually closing yet. But yeah, that'll be coming up later this year.

Chris Lakumb All right. Thanks, Eric. Anyone else have any final comments or parting thoughts? Very good. Well, thank you all for joining us today.