4Q24 RiverNorth/DoubleLine Strategic Income Fund & RiverNorth DoubleLine Strategic Opportunity Fund, Inc. Audio Review Transcript

Chris Lakumb — Corey, why don't we start with you if you want to provide any macro context and an update on what DoubleLine's fixed-income asset allocation committee is thinking and doing?

Corey Clermont — Yeah, of course. Happy to do it, Chris. And thanks for having me on. Just kind of looking at the fourth quarter broadly. It was a reversal from the third quarter and really returned to some of the themes we saw in the first half of the year. So longer-duration, higher-rated sectors underperformed the shorter-duration, lower-rated sectors. And that was primarily due to rising rates. Obviously, we had Trump win the election this November. That really contributed to some of the sell-off we saw in Treasuries and rates pushing higher, especially with some of the policy proposals which are going to be coming over the next few weeks. Hopefully, we get some more clarity. But they're a pro-growth agenda that he is pushing. And so just looking at Treasury rates, the two-year was up 60 basis points. The 10-year rose 79 basis points. Credit spreads broadly tightened. And you had the credit curve flattening. So just given this backdrop, traditional fixed income didn't perform as well compared to non-traditional fixed income. And when I say traditional, I mean asset classes like Treasuries, agency mortgages, and investment-grade corporates; they're all down about 3% in the quarter. Floating rate assets, which we saw again, were strong for the first half of the year; floating rate assets kind of returned to the top. They were the best performers: CLOs and bank loans. They were up about 2%ish.

One last thing on the macro front, which kind of feeds into some of the changes or non-changes we made during the quarter in the fixed income asset allocation committee, had to do around the Fed. So, they continued the theme of their cutting cycle over the final two meetings. So, they brought down the Fed funds rate by about 1% in 2024. Markets pricing in two cuts. A little bit actually less than two cuts. And the Fed themselves, they've kind of talked themselves into only producing two cuts in 2025. And so, you've seen those changing expectations. Part of the reason inflation has been really stubborn. Even the Fed themselves, in their summary of economic projections quarter over quarter, they increase their inflation outlook for 2025 from 2.1% to 2.6%. They also see unemployment coming down about 10 basis points. So that backdrop, 2025, you're kind of left with this picture of, can the Fed pull off this difficult balancing act of keeping policy restrictive enough to get inflation down to that 2% target while also not keeping it too restrictive is where you're going to increase the unemployment rate and obviously hurt the consumer.

So given that backdrop, within the RiverNorth core sleeve, the fixed income asset allocation committee was comfortable with our positioning, kind of the mix between traditional and non-traditional assets, also from a credit quality standpoint. I mean, the teams continue to be active in pruning the portfolios to reduce any unnecessary risk. But on the more opportunistic side, the fixed income asset allocation committee did make a change within the RiverNorth opportunistic sleeve, and that was to take down non-agency residentials, commercial mortgage-backed securities, ABS, and CLOs, and allocate that to agency MBS and bank loans. And just looking at the change, it was largely a cash sweep. So, we were taking from areas that really just weren't finding that many attractive risk-adjusted opportunities to put new cash to work. And so, we added that to agencies. I mean, agencies are a sector that we continue to like. You're getting yield over Treasuries on current coupons of about 140 over. So, you're getting paid to own those agencies. And obviously, they aren't taking on any credit risk. And then the addition to bank loans is really to keep that floating rate exposure. We're able to find some attractive opportunities there and put money to work. So, with that, I'll pause there, Chris, and pass it back to you.

Chris Lakumb

Thanks, Corey. That was a good update. Let's turn it over to Steve. Steve, do you want to give a quick recap of what's going on in the closed-end fund market?

Steve O'Neill

Yeah. Thanks, Chris. So closed-end funds - taxable closed-end funds, specifically - had a really good 2024, which was a nice recovery following the sell-off that began in 2022. Closed-end fund discounts were fairly flat in 2023. But this past year, 2024, taxable closed-end funds narrowed about 500 basis points. And the average discount on that sector was about 1% at the end of the year. So taxable closed-end funds, given their above-average yield and focus on mostly credit, have been really embraced by investors. And those have fully recovered from the bond market sell-off of the past couple of years from a discount perspective.

In contrast, the longer-duration parts of the closed-end fund space, namely municipal closed-end funds, really haven't recovered too much. Muni close-end funds started the year with around a 13% discount and ended around a 9% discount. And so there too, you had some nice narrowing, about 400 basis points. But at 9% discounts, you're still kind of in the 85th percentile of cheapness going back to the past 20 years. And as Corey mentioned, investor expectations about inflation have really fluctuated, and that has impacted on the demand for longer-duration assets. And so, I would say when you think about closed-end funds, most people think about bond funds. They're about two-thirds of the market. And within that bond market for closed-end funds, it's roughly equally split between credit and munis. And there's a real bifurcation. We continue to think munis are really attractive from a discount standpoint. And on the taxable side, we think investors should be looking to reduce some exposure and rotate some of that capital to ETFs or cash bonds. Or in our case, our partners at DoubleLine.

Chris Lakumb

Thanks, Steve. Let's stick with you and dig into some of the fund-specific questions. Any top-down asset allocation or sleeve allocation comments you'd like to make with respect to the RiverNorth/DoubleLine Strategic Income Fund or ticker symbol, RNSIX for short?

Steve O'Neill

Yeah. I mean, I would just kind of repeat what I had said earlier that the taxable close-end fund market performed really well. Our sleeve within this portfolio had a great year. And as discounts have narrowed, we've reduced the exposure. A year ago, we had around 20% of the portfolio allocated to closed-end funds. That's closer to 15% today. There are certainly still some opportunities in the market that warrant an allocation here, but a top-down theme would be monetizing some of the wins in the closed-end fund market. And in terms of what we've been able to do with the capital, we found opportunity in the investment-grade investment company debt market. And so those are BDCs that issue two- to seven-year notes.

We find the spreads to be really attractive. That market is maturing, and spreads have come in recently. But over the course of the year, there was some opportunity to take capital out of the closed-end fund book and put ourselves into BDC debt, call it 6 to 7 percent type yields with relatively short maturities. And so that was a trade that we were really excited about and one that although we're not continuing, that positioned us pretty well for the new year.

Chris Lakumb: Thanks, Steve. And same question as it relates to OPP. Any top-down sleeve or asset allocation comments you'd like to make?

Steve O'Neill: Yeah. So, I mean, the partnership works the same way for both funds. Obviously, we can allocate capital to DoubleLine. The difference between OPP and RNSIX from an asset allocation perspective, at least when it comes to the RiverNorth sleeve, is that in OPP, we also have square loans in the portfolio, which are high-income, short-duration, small business loans. We've liked that allocation here. We think it's a nice compliment given its short duration. The high-income component lends itself well to a closed-end fund. Also, the asset class works best in a closed-end fund. And so, we've continued to maintain a large allocation to that portfolio of loans. It's roughly 20% of the book today. And so that's been stable, but certainly noteworthy given the size. Beyond that, obviously, we have similar tools: closed-end funds, BDC debt. And similar to the RiverNorth DoubleLine Strategic Income Fund, we've been monetizing closed-end fund investments and increasing investment company debt. I guess worth highlighting. Uniquely within OPP, we have close to zero closed-end fund exposure just because we do prefer the square loans relative to closed-end funds today.

Chris Lakumb: Thanks, Steve. Corey let's go back to you. Any final thoughts or things you'd like to share with respect to the markets overall or the outlook or anything you'd like to share, maybe nuances unless folks are following very closely within the sleeves themselves that you guys are managing?

Corey Clermont: Yeah. I would just say, and I guess to start, echo Steve's comment, especially as it pertains to the RiverNorth opportunistic income sleeve. The higher income, lower duration, it does look really attractive. I mean, it worked out in the fourth quarter and really worked out in 2024. I mean, you just look at traditional credit being investment-grade corporates, and it was one of the worst performing credit sectors for the year, although it's still positive. And that's largely due to some of the volatility that we saw on rates. So, when you look really across the RiverNorth core sleeve, we're still overweight non-traditional fixed income. Those are things like non-agency residentials, commercial mortgage-backed securities, bank loans, CLOs, asset-backed securities. And those profiles do have that shorter duration, higher carry versus something like your traditional credit. And so that benefited, again, fourth quarter and 2024 for the RiverNorth core sleeve. And then the opportunistic income sleeve, about 65% of the portfolio, are in these non-traditional asset classes. And so, you look at year-to-date performance, outperformed the Agg (Bloomberg US Aggregate Bond Index) that kind of traditional fixed income benchmark by about 8% for the year. So strong performance in the RiverNorth opportunistic income sleeve.

For final thoughts, some of the things that we're thinking about here at DoubleLine and just an interesting observation is just looking at kind of rate volatility and rate moves since the Fed cut, the initial cut on September 18th. If you just look at the 10-year Treasury yield, going back really to the rate-cutting cycles, the beginning of the rate cutting-cycles to the early '80s, typically, when you get a cut by the Fed, yields tend to fall across the curve. And what we've seen so far, and we're about 50, 55 business days out from that initial cut of this cycle, 10-year Treasury yield is higher pretty significantly. So that's really a divergence from what we've seen historically when the Fed starts to cut. And then just my last comment is that 2024 really kind of defied expectations, much like 2023. Kind of entering the year, you had questions about what the Fed was going to do. Obviously, the market expected the Fed to cut a little bit more entering the year. And you kind of had this expectation that that risk on, whether it was equities or lower-rated credit, was going to kind of have mid-single-digit returns. And the consumer and the lagged monetary restrictive policy, I think, really contributed to this defiance of expectations in 2024. And so going into 2025, I really do think one of the key things to keep an eye on is the Fed. Their dual mandate obviously being unemployment, or I should say maximum employment, and getting that inflation target back to 2%. They're going to be data-driven. And so that's going to be one thing to focus on for investors as we move forward into this year.

Chris Lakumb: Thanks, Corey. That's helpful. Steve, any final thoughts from your side with respect to the closed-end fund space or the outlook?

Steve O'Neill: Sure. I guess I'd jump to the outlook. I think it's worth highlighting you think about a fund like RNSIX, RNSIX has had an incredible 12 to 15 months. The last time rates were around these levels was in the fall of 2023. Rates obviously came down. Both RiverNorth and DoubleLine were able to position the portfolios to take advantage of some of that volatility. And the returns have been really good in the past year or so. And so, I kind of look at a fund like RNSIX, it's back to a total return high. And when we look at the market today, we've got nice, high, absolute levels of yields. And so, I guess from a bond manager's point of view or a closed-end fund trader, it's nice to have yields where they are to give us the ability to build income. And I think we've done a good job capitalizing on some of the total return potential in the market. Certainly, there is no forecast here on which way rates are going to go. But you think about the fund, RNSIX and OPP today versus a couple of years ago; it's just a lot easier to deliver on the objective when we've got base rates where they are. Spreads have come in a bit, but there's still some non-traditional opportunities, both in the closed-end fund market and the cash bond market, that I think make it a lot easier for us to hit our return numbers on behalf of investors.

Chris Lakumb: Thank you, Steve. And thanks again, Corey. Appreciate your participation, guys.

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.

RiverNorth Closed End Funds:

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. An investment 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 a 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.

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