

My Thesis on RiverNorth Marketplace Lending Preferred Stock

This post is excerpted from a letter by Jim Roumell, partner and portfolio manager of [Roumell Asset Management](#).

The following discussion focuses on RiverNorth Marketplace Lending Corp 5.875% Series A Term Preferred Stock due October 31, 2024 (NYSE: RMPL).

RiverNorth Marketplace Lending Corporation is a closed-end investment company (closed end fund or CEF) that has registered as an investment company under the Investment Company Act of 1940 (the “1940 Act”). The investment objective of the Fund is to seek a high level of current income by investing at least 80% of its Managed Assets in consumer and small business loans.

We purchased the new issuance of preferred stock at \$25 par. The preferred stock will be redeemed at par on October 31, 2024 and pays dividends quarterly, beginning February 15, 2018. The preferred stock is senior to all common stock and is rated AA by the independent ratings company Egan-Jones. This rating indicates that in the opinion of the independent rating agency, the credit quality of this preferred stock is “very strong”. We find the risk/reward of this highly-rated preferred to be quite attractive as it currently yields approximately 166 basis points higher than high yield corporate bonds (BB rated). Compared to AA rated corporate bonds, this preferred stock yields an incremental 296 basis points. Additionally, as discussed in more detail below, there are significant regulatory leverage protections we are afforded.

Regulatory restrictions under the 1940 Act limit the amount of debt and preferred stock that a closed end fund can have outstanding. Generally, a CEF may not issue any class of indebtedness (including preferred stock) unless, immediately after such issuance, it will have asset coverage of at least 200%. For example, like the BDC examples noted above, if a CEF has \$1 million in assets, it can borrow up to \$1 million, which would result in assets of \$2 million and debt of \$1 million. If RiverNorth were to breach this regulatory limit it would be forced to take action to come back into compliance. The company would not be able to pay any common stock dividends until it was in compliance. These actions could include the sale of assets and repayment of a portion of the debt or the issuance of new common equity, all of which protect us as owners of the preferred stock.

The 1940 Investment Company Act debt limit restriction brings us a great deal of comfort that our preferred stock is well protected by significant, and persistent, asset coverage. As referenced above, with over 40% of ten-year rolling periods for the S&P 500 failing to generate an 8% annualized return, we are satisfied with securing this relatively safe 5.875% return.

Disclosure: The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. The top three securities purchased in the quarter are based on the largest absolute dollar purchases made in the quarter.