RELATIVE VALUE PARTNERS

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DURABLE INCOME STRATEGY

Investment Letter – April 2016

For the first quarter of 2016, the Durable Income Strategy held up well during a very volatile market environment. Durable Income generated a 3.21% net return vs the Barclays High Yield Index Benchmark return of 3.35%. Since inception (June 1, 2014), Durable Income has generated a 4.73% cumulative net return vs the Benchmark cumulative return of -3.28% and the iShares iBoxx High Yield Corporate Bond ETF cumulative return of -4.98%. Durable Income invests in exchange traded, income oriented securities with an underlying goal of generating above market income while avoiding permanent asset impairment. Since seeding the strategy in June 2014, the portfolio managers have continued to add new capital.

As of March 31st, Durable Income was generating an attractive 8.02% net yield and the portfolio was priced at a weighted average price to book value of 85.4%[1]. The quarter started off on a very negative note as all risk assets, including high yield bonds, banks loans, mortgage securities and equities sold off in dramatic fashion. Once the Fed reset interest rate expectations in mid-February, asset prices recovered. There were some serious "gut check" moments but we continued to maintain confidence that the underlying assets and structures we own in Durable Income were not at risk of permanent impairment. Instead, our conclusion was that they were suffering from intense selling during a period of de-risking. The portfolio was attractively priced when we started the quarter and became extremely cheap during the selloff.

We continue to believe that Durable Income is a compelling long term story given its diversified portfolio of well-structured entities, holding par claim assets and trading at a discount to book value. RVP's overriding risk management theme is anchored around limiting interest rate risk, being very mindful of credit risk underlying the portfolio and understanding an entities' structural protections and financing terms. In short, everyone takes credit losses from time to time but we want to avoid entities with good underlying assets that might suffer permanent impairments due to poor liability structures. It is our belief that over time, well underwritten assets with good capital structures, purchased at a discount, earning substantial positive carry will generate attractive long term, risk adjusted returns.

During the 1st quarter, we made slight adjustments to the portfolio by increasing our residential and commercial REIT exposure as they traded at historically large discounts to book value and began to increase their share repurchase programs. We also made a small reduction to our BDC and broadly syndicated bank loan exposures. We also added a few preferred stocks including a Wells Fargo issue that we will discuss below. In aggregate, these adjustments enhanced the underlying asset quality of the portfolio while improving the overall discount to book value.

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[1] Excludes cash, preferred stock, bonds, and Spectra Energy.

We continue to have long term concerns about the impact of commodity prices on the oil & gas, metals & mining and specialty chemicals sectors of the corporate credit market and have generally stayed away from entities with significant exposure to these sectors. We continue to believe that market fundamentals for residential, commercial and corporate credit remain strong. The entities we have purchased own a large percent of 1st lien securities, have lower overall leverage and the overwhelming majority of the assets have either floating rate coupons and/or shorter duration fixed rate structures. Collectively, these features should help protect us from negative credit events, a flattening yield curve and rising interest rates. Additionally during the quarter, we had three dividend increases and one decrease.

Below is a March 31st snapshot of the Durable Income composite:

RVP Durable Income Portfolio Characteristics

As of March 31, 2016

	% Portfolio	Yield	Price/Book	# Positions
BDCs	22.5%	11.70%	81.6%	6
Preferred Stocks and Bonds	28.9%	7.48%	N/A	13
Residential Mortgage REITs	21.4%	9.42%	84.5%	5
Commercial Mortgage REITs	17.2%	9.23%	89.1%	4
Broadly Syndicated Loans	3.4%	5.50%	92.4%	3
Utilities and Pipelines	4.6%	7.25%	90.8%*	2
Cash	1.9%	0.00%	N/A	1
Total	**100%**	**8.92%**	**85.4%***	**33**

*Excludes Spectra Energy as it does not trade relative to its book value. Total also excludes preferred stocks, bonds and cash.

We maintain a diversified portfolio that is domestically focused, primarily senior in the capital structure, secured and structured with lower leverage and a floating rate orientation. In addition, we believe that the portfolio has been purchased at good valuations and generates a meaningful income stream, all while being very risk conscious. Over 90% of Durable Income's underlying assets are loans, bonds or securities with a par claim on a particular assets and/or business. We believe that the market undervalues the benefits of the par claim and financial covenants which provide a lot of protection vs entities that are valued solely on cash flow generation.

Our last few quarterly letters have provided write-ups on many of the entities that continue to comprise the Durable Income portfolio so we are going to highlight one of our recent additions.

Wells Fargo 7.50% Convertible Preferred Stock (WFC-L) – WFC-L was originally issued during the financial crisis in 2008 as a Wachovia convertible preferred security. Wachovia was eventually acquired by Wells Fargo (WFC) so this security is now part of WFC's capital structure. It is a $4 billion issue. The conversion price is over $150 per WFC common share. With WFC currently trading around $50 per share, there is next to no equity value in the conversion aspect of WFC-L. As a result, we value it as a traditional non-convertible preferred stock. WFC-L has a $1000 par claim and as of March 31st, it traded at a premium price of $1205. Its 6.27% tax advantaged yield compares quite favorable to other large US banks. In our opinion, WFC is one of the best run banks and has a strong capital base with a tier-1 capital ratio of 13.0% and a tangible common equity ratio of 8.0%. If WFC ever did get into financial trouble, it is nice to know that as its largest common shareholder, Warren Buffet and Berkshire Hathaway would have to lose its entire investment before we take a credit loss on our preferred. Two other features we like about WFC-L is that it is non-callable so if the US ever did get into a European and Japanese interest rate environment, WFC cannot call WFC-L and will have to continue paying the 7.50% coupon which would only enhance its value. The other feature we like about WFC-L is that the dividend payment counts as qualified dividends for tax purposes so for a taxable account, the 6.27% yield compares quite favorably to other fully taxable income.

Our overriding outlook, and portfolio positioning, continues to be as follows:

- We think the specialty finance sectors offer compelling yields and lower valuations versus utilities, traditional REITs, high quality dividend paying stocks and traditional high yield;
- The Durable Income Strategy's assets trade at a low multiple to earnings and/or cash flow and discount to net asset value while simultaneously generating above market yields;
- The portfolio is constructed with an eye towards rising interest rates; and
- The portfolio is currently invested in the higher quality sectors of the leveraged finance, specialty finance and mortgage markets.

Over the past six months, we have seen some pretty sharp market moves and we believe that some of the volatility has been indiscriminant and overdone. That being said, we believe that the Durable Income portfolio is currently well positioned and presents an interesting opportunity and we would be happy to discuss in more detail.

Sincerely,

Maury Fertig | Bob Huffman | Doug Crimmins

Relative Value Partners Group, LLC Durable Income Composite Net Returns

	YTD (ending 3/31/16)	1 Year (ending 3/31/16)	Since Inception (5/31/14 to 3/31/16) Annualized
RVP Durable Income	3.21%	0.09%	2.55%
Barclays US Corp High Yield Index	3.35%	-3.69%	-1.80%

Relative Value Partners Group, LLC (RVP) is a registered investment advisor. Prior to July 1, 2015, RVP was known as Relative Value Partners, LLC. The Durable Income Account composite contains fully discretionary Durable Income accounts and for comparison purposes is compared against the Barclays US Corp High Yield Index.

All returns are shown in US dollars and are net of actual fees. The returns shown include the reinvestment of dividends and other earnings. Accounts may own levered closed-end funds or ETFs and may short ETFs. Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk and there can be no assurances that any specific investment will be profitable. Investors may experience a loss.

RVP claims compliance with the Global Investment Performance Standards (GIPS®).

To receive a complete list and description of RVP's composites and/or a presentation that adheres to the GIPS standards, contact Catherine Goel at (847) 513-6300, or write RVP, 1033 Skokie Blvd, Ste 470 Northbrook, IL 60062, or cgoel@rvpllc.com.