Incorporating Marketplace Lending Into An Institutional Portfolio

Since 2004, RiverNorth has specialized in the development of opportunistic investment strategies. In 2013, the investment team started taking a closer look at what RiverNorth believes are the attractive characteristics of marketplace lending ("MPL"): high coupons, short duration and low correlation to traditional assets. There were, however, a series of challenges that, at the time, prevented the widespread inclusion of the asset class in client portfolios.

The purpose of the paper is to detail the primary investment characteristics of the MPL asset class, including the opportunity and chief risks. The paper will also provide a thorough review of the MPL platform due diligence process and describe an approach to the portfolio construction process. Lastly, primary factors associated with incorporating MPL asset class exposure into a diversified portfolio are considered, including where it fits, correlation with other asset classes, and impact on portfolio fees.

A Brief History of Marketplace Lending

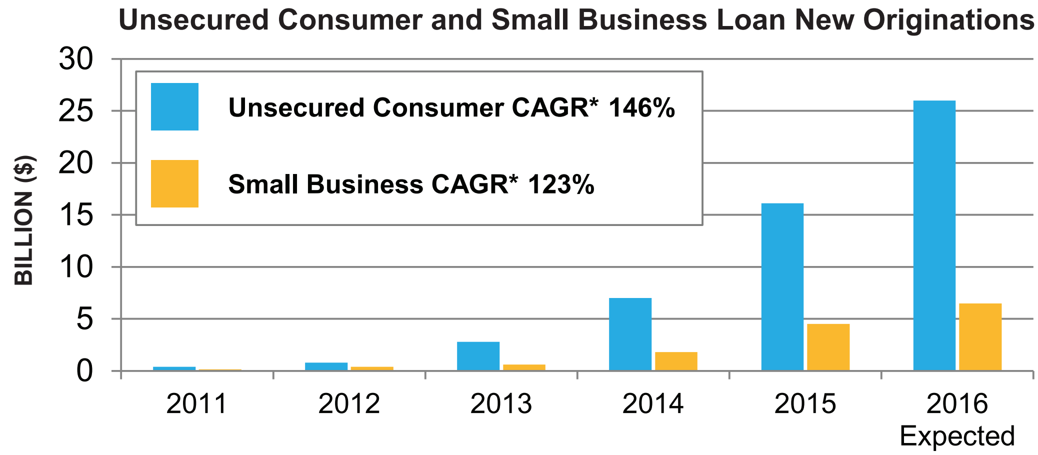
The founding of Zopa in the U.K. in 2005 is considered the beginning of the marketplace lending movement. In the U.S., Lending Club and Prosper were both founded in 2006. The following chart provides a basic overview of how the MPL structure works:

INVESTORS	INVESTMENT TYPE	PLATFORMS	BORROWERS
Retail Investors	Public Notes	LendingClub	Consumers
High Net Worth	Certificates	Funding Circle	Small & Medium-sized Enterprises (SMEs)
Institutions	Whole Loans	SoFi	
	Line of Credit/ Securitization Facility	PROSPER	

Source: Morgan Stanley Research, RiverNorth

Several factors have led to significant growth in new loans originated by MPL platforms over the past 10 years. According to Morgan Stanley and RiverNorth's research, U.S. marketplace loan origination has doubled every year since 2010, to more than $20 billion in 2015. MPL platforms have originated consumer and small business loans at a compounded annual growth rate of 146% and 123%, respectively, over that period.

As of 1.31.2016
** CAGR - Compound Annual Growth Rate.*
Sources: Lend Academy, Lending Club, Prosper, Funding Circle USA, OnDeck Capital and Liberum Capital research

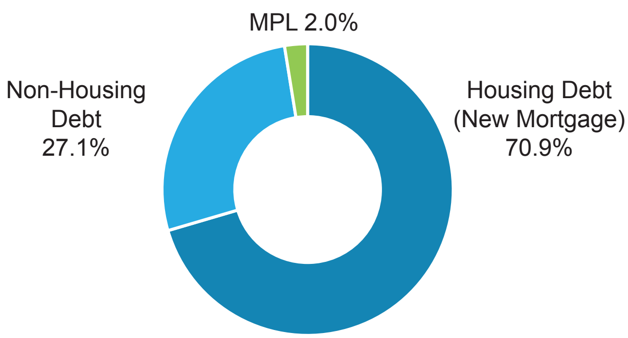


To grasp the current opportunity and environment, it makes sense to turn the clock back to the Great Financial Crisis of 2008/2009 (GFC), which led to significant changes within the banking industry. A large number of regional and community banks, which historically originated consumer and small business loans, were shuttered, merged, or acquired in the aftermath of the GFC. For a variety of reasons (e.g. Dodd-Frank and a lack of profitability driven by a high fixed-cost expense structure) larger banks have not filled the lending void for smaller dollar loans, preferring that borrowers use a high-margin credit card product.

Although the growth in originations has been impressive in the past seven years, loans originated by marketplace lenders only account for a small percentage of total outstanding consumer and small business credit. Goldman Sachs estimates the amount of credit that could be "immediately addressable" by marketplace lenders is approximately $1.7 trillion. Several firms from PwC to Foundation Capital have applied various market share capture estimates leading them to forecast $150 billion - $1 trillion of originations by 2025. Despite the fact that the range of potential outcomes is very wide, the lower end of that range is still approximately 8X cumulative originations to date.

The following two charts show the continued opportunity for growth in MPL originations. The chart on the left shows the percentage of household debt market share captured by marketplace lenders in 2015. The chart on the right shows the credit card refinancing opportunity segmented by borrower's FICO score. Roughly 85% of the $465 billion of credit card balances outstanding is tied to high-quality borrowers who may benefit from a lower cost, installment loan originated by marketplace lenders. Notwithstanding the significant historical growth in originations and market share, MPL originations still comprise a relatively small slice of the credit pie.

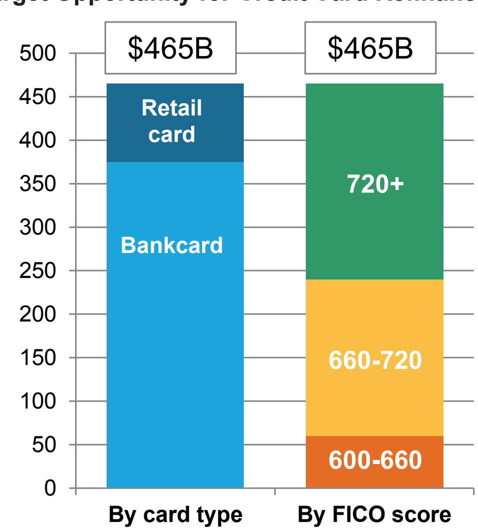
2015 Household Debt Originations



U.S. HOUSEHOLD DEBT ORIGINATIONS IN 2015	
New mortgage debt	$731B
Non-housing consumer debt	$280B
MPL originations	$20.5B

Source: Federal Reserve Economic Data

Outstanding Credit Card Balances & FICO Distribution
(as of 12.31.2015)
Target Opportunity for Credit Card Refinancing



Source: Lending Club 4th Quarter and Full Year 2015 Earning Presentation, 2.11.2016.

The most common types of loans originated by the platforms in the United States are unsecured consumer and small business. Other types of credit have migrated to the MPL channel, including student loans, elective medical loans, franchise loans and equipment financing.

It is likely that many traditional and non-traditional forms of credit will continue to transition to the MPL channel. The following table depicts some of the average loan statistics for two of the top originators of consumer loans. These are not subprime loans; they are loans to high-quality borrowers with significant annual income, low debt-to-income ratios and high FICO scores (i.e. prime and super-prime borrowers). Furthermore, the majority of borrowers are using these fixed-rate, fully-amortizing, installment loans to refinance high-interest, revolving credit card debt.

ORIGINATOR	FICO RANGE (at origination)	LOAN SIZE RANGE	AVG FICO SCORE (at origination)	AVG LOAN SIZE	AVG LOAN TERM (months)	AVG COUPON	DATE OF REPORT
Prosper Marketplace	640-850	\$3,000 - \$35,000	703	\$14,142	45	13.2%	7.29.2015
SoFi	660-850	\$5,000 - \$100,000	738	\$38,138	69	8.6%	7.22.2016

Source: Kroll Bond Rating Agency, Citi Held for Asset Issuance. Past performance is neither a guarantee nor a reliable indicator of future results.

What is so disruptive about Marketplace Lending?

The “disruptive” aspect of marketplace lending isn’t the underlying asset; banks, credit card companies, and specialty finance companies have been extending credit based on FICO scores for 60 years. Many of the executives and employees involved in the marketplace lending credit underwriting process have deep credit card/bank experience. It therefore should come as no surprise that the chief determinant in the credit decisions made by MPLs is the borrower’s FICO score.

What is disrupting the credit industry is marketplace lending’s use of technology throughout the spectrum of the process. Instead of showing up in person at a local bank branch to speak with a loan officer and complete an application, consumers now pre-qualify and complete the application online.

On the back-end, the marketplace lender can process the application, complete the verification process, apply the credit underwriting model and make the credit decision quickly. Although FICO scores are the primary credit-model factor, the underwriting models are also using traditional and non-traditional sources of data combined with machine learning in an effort to more effectively price risk. All of this leads to an average time of funding of just a few days. Marketplace lenders’ utilization of technology is also very important in the ongoing servicing of the loan as economies of scale are leveraged through the use of a centralized, redundant technology process, as compared to paper files spread across branch networks of large regional and national banks.

Marketplace lending is disruptive technology because it allows for better data on borrowers, faster origination and more efficient servicing, while facilitating the mechanism for retail & institutional investment in the purchasing of loans.

Perhaps the most significant consequence of the advent of marketplace lending technology is the way it has opened the door for retail and institutional investors to efficiently invest in the asset. Previously, these assets resided on the balance sheets of bank and credit card companies as there was no efficient way to carve out and transfer the risk, prompting credit card companies to became adept at selling some of the risk into the asset-backed security markets. Most of the risk being sold is high quality, short duration and low coupon, with credit card companies retaining the high-yielding, non-rated pieces for their balance sheet.

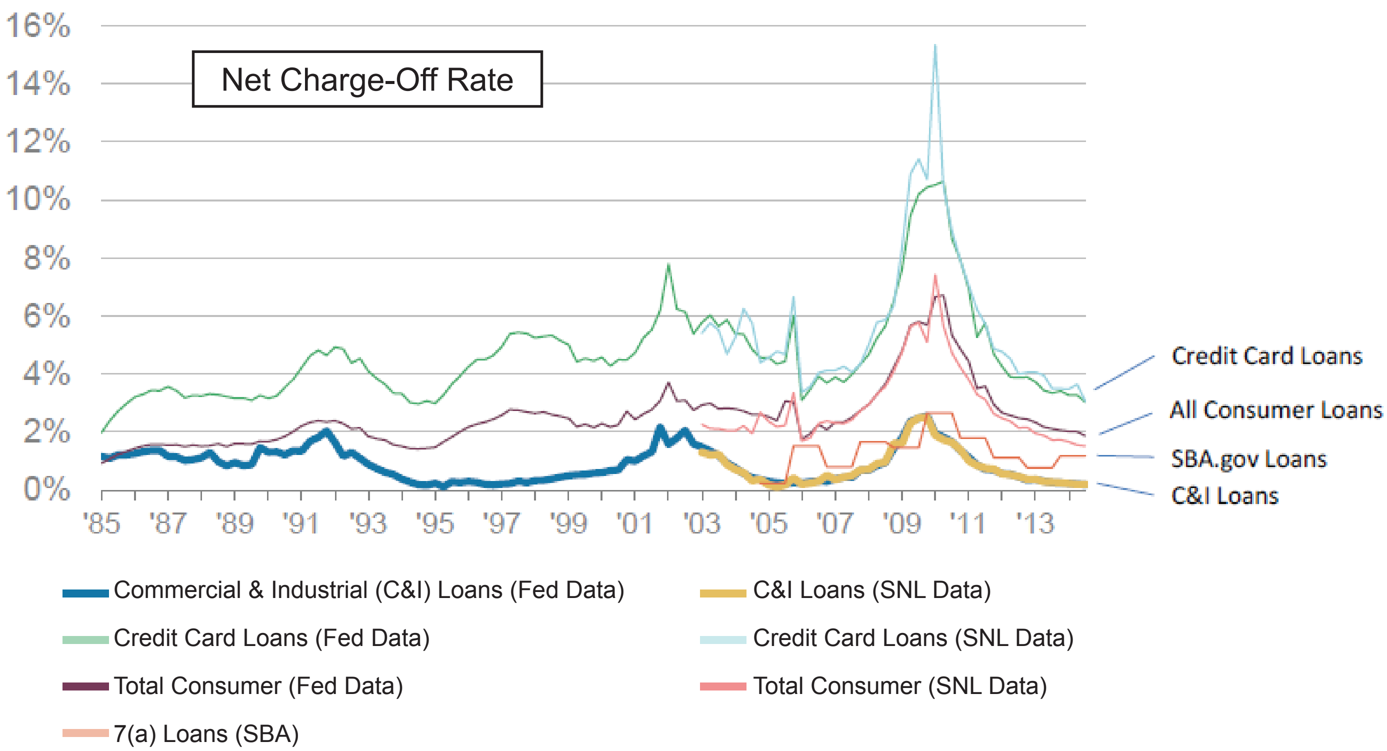
However, considering the typical consumer and small business loan originated by community, regional, and national banks, RiverNorth believes there is no efficient mechanism to sell the asset to investors. There is significant complexity involved with a large hedge fund purchasing tens of millions of dollars of small business loan exposure directly from originating banks. In RiverNorth’s opinion, the review, transport, storage and maintenance of loan documents alone would likely dissuade prospective investors. Considering how MPLs have used technology to make it relatively easy, and efficient to invest in these loans, it becomes clear why the term “disruptive” is used.

MPL is disruptive technology because it allows for better data on borrowers, faster origination and more efficient servicing while facilitating the mechanism for retail and institutional investment in the purchasing of the loans.

Discussion on Risk

Consumer credit risk is a principal risk within the MPL asset. RiverNorth believes the health of the consumer, as measured by various employment statistics, will be a determinant of the performance of the MPL asset class. As long as the aggregate consumer balance sheet remains sound - it has been improving since the GFC of 2008/2009 - RiverNorth believes the performance of the MPL asset class should be in line with expectations. A chief concern regarding MPL performance going forward rests on how the consumer, and hence the asset, performs during the next complete credit cycle. The substantial majority of loans originated through the MPL channel were originated post-GFC. As a point of reference, the following chart depicts the charge-off experience of other, similar credit assets during the GFC.

U.S.: Historical NCO Ratios of Consumer and C&I Loans as of 5.19.2015



Source: FDIC, SBA.gov, Federal Reserve, Morgan Stanley Research. C&I Loans - Commercial & Industrial Loans. 7(a) Loans - The Small Business Administration's primary program for helping start-up and existing small businesses, with financing guaranteed for a variety of general business purposes.

Past performance is not a guarantee or reliable indicator of future results.

It will be important to see how MPL underwriting models perform during adverse credit environments, as it is likely that the next phase of the credit cycle will stress test the platforms' business models, potentially leading to significant platform consolidation.

An investor in MPL accepts a lack of liquidity and thus demands an illiquidity premium. An active secondary market for these loans does not currently exist. It is true that portfolios of loans have changed hands on an infrequent basis. However, these transactions bring true meaning to the phrase "trade by appointment." There are initiatives in progress to develop an active secondary market for loans.

Until a market exists, holding the loans until maturity (or prepayment) is the primary way to achieve liquidity in the asset. The fully-amortizing nature of the asset, where lenders typically receive principal and interest monthly, if not more frequently, helps to lower duration. This is contrasted by the traditional credit markets, which have relatively active secondary markets, such as high yield corporate bonds and senior loans. When designing an investment vehicle focused on MPL, there should no expectations of secondary market liquidity. It is a relatively straightforward process to match the underlying, predictable cash flow of the asset with the liquidity terms and liquidity liability of the investment vehicle.

Exemption from the fickle nature of the daily-traded credit markets partially insulates MPL investors from technical selling that may be independent of the fundamentals associated with the asset. The forced selling that took place in 2008/2009 (as credit managers were de-levering, meeting margin calls and investor redemption requests, etc.) is a recent example. Combining the daily liquidity of a credit-asset with a mark-to-market accounting regime can create unwanted volatility for prospective long-term holders of an asset.

RiverNorth's Platform Due Diligence

What principal factors should be considered when conducting due diligence on a marketplace lending platform as a potential partner from which to acquire loans?

There are approximately 165 platforms in operation in the U.S. as of May 31, 2016. Filtering for some business continuity, and size, scale and economic factors, the list of viable partners pares down to 50-60. A rigorous due diligence process further narrows the field to a manageable list of top-tier loan originators.

Focus should next be turned to quality of the management team, user experience, borrower acquisition process and cost, credit underwriting process, systems, loan servicing, cybersecurity, fraud-prevention, disaster planning, etc. In addition to spending time on-site and over the telephone with the executives and key employees of the platforms, time should be spent with external stakeholders, such as venture capital and private equity firms, to help paint a complete picture of the platform as a viable business partner. The end goal of this phase of the process is to gain comfort with entering into an agreement to purchase loans at origination from the platform.

Given the intricacies of the platform due diligence process, it is important to limit MPL originating platforms to those domiciled and making loans in the U.S. While the case could be made that diversifying to non-U.S. platforms makes sense, it is RiverNorth's view that the additional complexities from currency-risk, differences in the "rule of law" and the consumer lending regulatory landscape offset the diversification benefits.

The recent volatility and regulatory uncertainty surrounding Brexit is a timely example of the additional risks associated with investing internationally that aren't necessarily offset by higher coupons or diversification benefits of adding UK MPL exposure into the portfolio. As the UK exits the European Union, there will likely be new regulatory and banking changes that could adversely affect debt assets.

RiverNorth believes the U.S. asset is fundamentally attractive and sufficiently robust for building an attractive marketplace lending portfolio. Proper due diligence can potentially reduce idiosyncratic platform risk when constructing a portfolio.

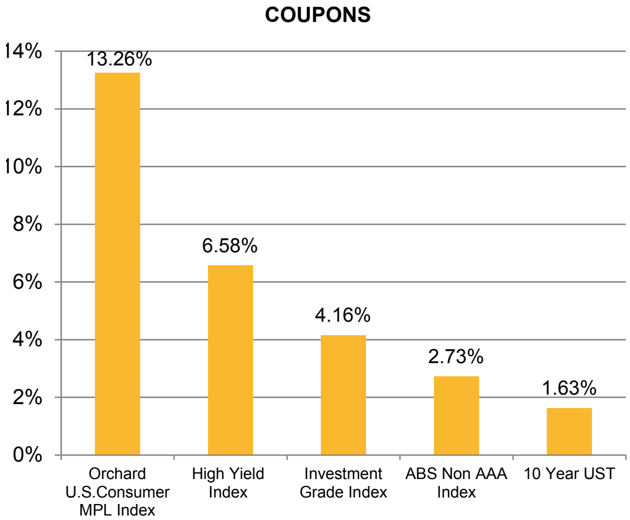
RiverNorth's Approach to MPL Portfolio Construction

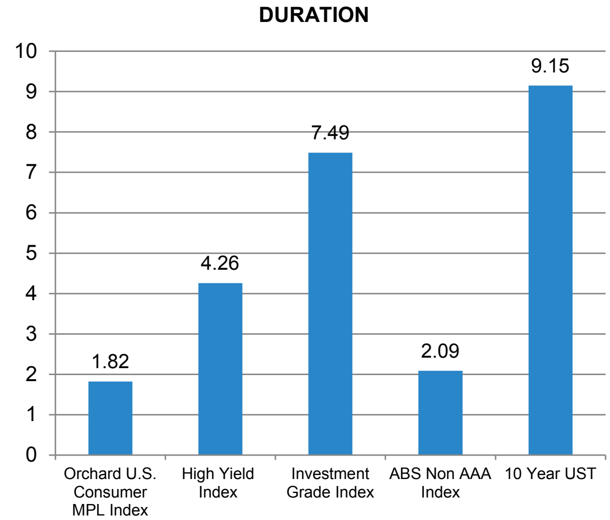
In considering the design and construction of an MPL-focused investment portfolio, a determination needs to be made regarding exposure to the MPL asset. Several options exist, ranging from direct loan purchases to an investment in private partnerships dedicated to the asset class. Investors value the transparency, daily net asset value, straightforward fee structure and leverage limitations offered by funds registered under the Investment Company Act of 1940. The proposed appropriate investment vehicle is the closed-end, interval fund structure.

Portfolio design begins with the premise that the MPL asset class possesses what RiverNorth believes to be attractive characteristics, chiefly with respect to yield and duration (i.e. risk-adjusted returns). Constructing a portfolio that provides broad exposure to the asset class is a reasonable starting point. Investors can benefit from a portfolio that is diversified across several, best-in-class MPL platforms to reduce idiosyncratic originator risk. It is RiverNorth's view that a "beta" approach to the asset class, as opposed to attempting to generate "alpha" via superior loan selection, is appropriate.

MPL vs. Other Traditional Fixed Income: Coupons and Duration

As of 6.30.216





Source: Orchard, Barclays. Orchard data represents Dollar weighted-average coupons: 1.1.2014 – 6.30.16. The Orchard U.S. Consumer Marketplace Lending Index is designed to measure the performance of direct online lending to U.S. consumers. The Index tracks the performance of the aggregate amount of loans to consumers originated and funded on eligible U.S.-based online lending platforms.

HY Index – Barclays U.S. Corporate High Yield Index covers the universe of fixed rate, non-investment grade debt. 10 Year UST – 10 Year U.S. Treasury Rate is a debt obligation issued by the U.S. Government that matures in 10 years and pays interest at a fixe rate once every six months. Investment Grade Index – Barclays U.S. Corporate Investment Grade Index measures the performance of investment grade corporate bonds. ABS Non AAA Index– Barclays ABS Non AAA Index tracks the fixed-rate ABS market for bonds with collateral types of credit cards, autos and stranded-cost utility (rate reduction bonds). To be included in the index, an issue must have a fixed-rate coupon structure, have an average life of greater than or equal to one year and be part of a public deal.

Past performance is no guarantee of future results.

From there, the investible universe is broadly defined by segmenting the MPL asset into three broad categories, or sub-asset classes: Consumer, Small Business and Specialty Finance (e.g. loan to purchase a small business franchise). Using 2015 origination metrics, approximately 60% of originations were Consumer, 30% Small Business and 10% Specialty Finance. This will serve as the starting point for a strategic asset allocation, or policy portfolio.

Next, it would be appropriate to further segment the portfolio by risk grade. Each MPL platform develops and implements its own proprietary grading scale. The following charts provide an example of the risk grade spectrum for Prosper and Funding Circle loans.

	PROSPER	AA	A	B	C	D	E	HR
36 month	% of originations	14.84%	30.24%	24.57%	18.31%	7.23%	3.70%	1.11%
	$ average weighted coupon	6.91%	9.47%	12.43%	16.20%	20.98%	25.58%	30.00%
	Weighted average FICO	746	714	696	684	676	668	661
60 month	% of originations	0.44%	9.69%	29.45%	40.24%	16.60%	3.29%	0.00%
	$ average weighted coupon	7.64%	10.26%	12.89%	16.48%	20.89%	25.76%	0.00%
	Weighted average FICO	771	746	719	698	682	674	-

Source: Prosper Marketplace (loans originated from Core Loans 7.14.2009 – 6.30.2016) ***Prosper originated loans have the potential to default. Prosper has a limited observable history of defaults. Loan categories are assigned by Prosper and may not correspond to similarly named categories from other platforms. Loan categories reflect all current credit characteristics of underlying borrowers. They are based on Prosper's proprietary underwriting models, which take into consideration all available borrower characteristics. More information on loan grades can be found at https://www.prosper.com/plp/invest/prosper-ratings/.*** *Weighted average FICO scores serve as a significant predictor of credit quality for consumer lending. Past performance is no guarantee of future results. This is not a credit rating. Categorizations shown are determined by Prosper using a proprietary formula.*

Funding Circle

	A+	A	B	C	D
% of originations	5.75%	24.89%	37.12%	26.42%	5.83%
$ average weighted coupon	9.22%	11.88%	14.47%	17.78%	22.07%
Weighted average asset coverage ratio	4.82	3.54	2.98	1.68	1.49
Weighted average debt coverage ratio	2.30	1.74	1.43	1.13	1.11

Source: Funding Circle (loans originated from 2.27.2013 – 6.30.2016). ***Funding Circle originated loans have the potential to default. Funding Circle has a limited observable history of defaults. Loan categories are assigned by Funding Circle and may not correspond to similarly named categories from other platforms. Loan categories reflect all current credit characteristics of underlying small businesses. They are based on Funding Circle's proprietary underwriting models, which take into consideration all available small business characteristics. More information on loan grades can be found at https://static.fundingcircle.com/files/us/Investment_Profile_20160211-d68ebb13.pdf.*** *Weighted average asset coverage and debt coverage ratios serve as a significant predictor of credit quality for small business lending. Past performance is no guarantee of future results. This is not a credit rating. Categorizations shown are determined by Funding Circle using a proprietary formula.*

It makes sense to build a portfolio of loans that resembles these origination metrics. The term, "passive pro-rata" is used to describe this methodology. RiverNorth believes the MPL asset class is attractive, and efficient, and thus not ripe for generating alpha by selecting individual loans. Institutional-purchaser loan purchase agreements provide the flexibility to broadly restrict the types of loans purchased (e.g. loans not meeting certain FICO or debt-to-income thresholds), giving the institutional investor the ultimate discretion as to the loans purchased.

Rounding out the portfolio construction process should be a discussion of the appropriate use of leverage. As stated earlier, the Investment Company Act of 1940 limits the types and amount of leverage. For closed-end funds, including interval funds, the maximum amount of allowable leverage is 33⅓% of total assets (which includes assets from borrowings) if using a traditional source of leverage such as a bank credit facility. RiverNorth views the asset class as attractive, therefore, applying maximum leverage to enhance income doesn't seem prudent given some of the risks associated with the asset class.

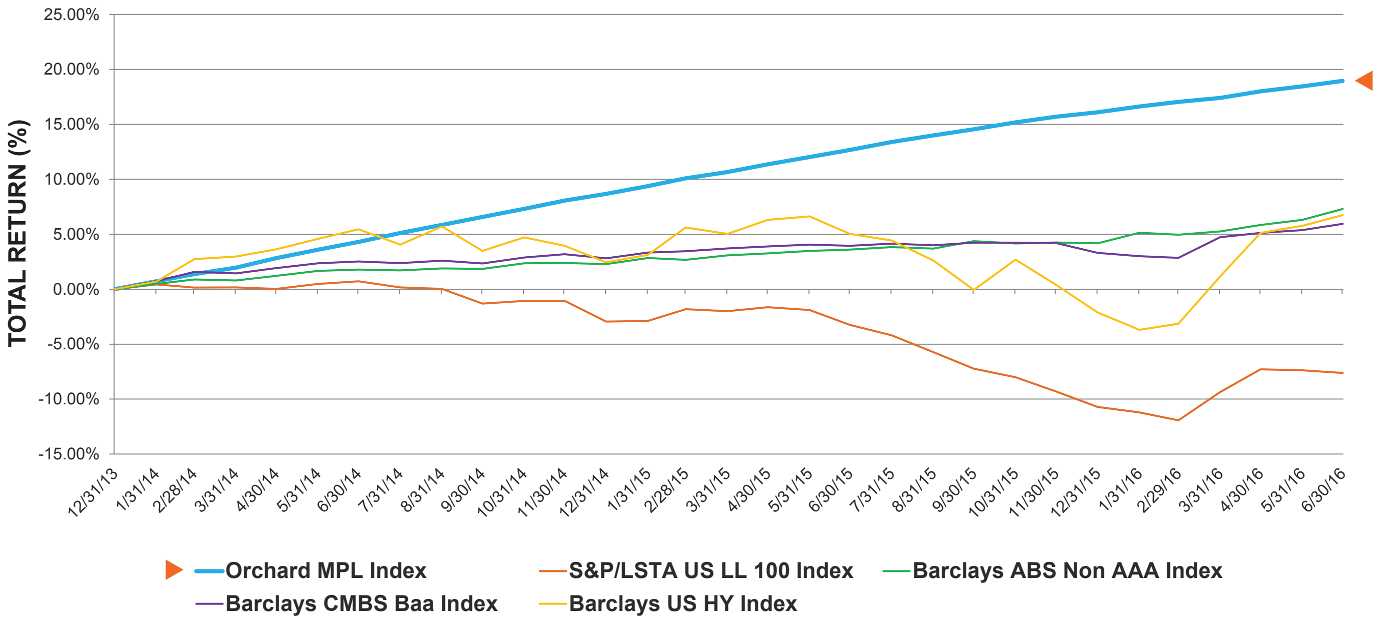
The fully-amortizing, short duration nature of the asset combined with large fund-level inflows can create significant cash build-up, which then acts as a drag on portfolio income. A small amount of leverage could be used to offset the cash drag. While there is certainly a cost to using the leverage facility, there is a net potential benefit to the investor by earning the spread between the loan asset and the cost of leverage.

The following chart provides an example of historical MPL returns using an index created by Orchard Platform, a technology & infrastructure platform that supports the application of marketplace lending across asset classes. It is important to note that because MPL is a new asset class, future returns/charge-offs, etc. are difficult to forecast. RiverNorth believes there is an adequate "margin of safety"* given the potentially attractive coupons.

** Margin of safety is a principle of investing in which an investor only purchases securities when the market price is significantly below its intrinsic value. In other words, when market price is significantly below your estimation of the intrinsic value, the difference is the margin of safety.*

Marketplace Lending Returns vs. Other Fixed Income

Cumulative Total Returns *As of 6.30.2016*



Source: Bloomberg, Barclays. Performance data quoted represents past performance; past performance does not guarantee future results. Performance is only available for a limited time period and does not imply long-term outperformance. Index performance is not illustrative of fund performance. The Fund is new and has no performance history. Once available, please call 844.569.4750 for Fund performance. One cannot invest directly in an index. Cumulative total returns based on monthly returns.

The S&P/LSTA U.S. Leveraged Loan 100 Index is designed to reflect the performance of the largest facilities in the leveraged loan market. The Orchard U.S. Consumer Marketplace Lending index is designed to measure the performance of direct online lending to U.S. consumers. The Index tracks the performance of the aggregate amount of loans to consumers originated and funded on eligible U.S.-based online lending platforms. The CMBS Baa Index, or Barclays CMBS ERISA-Eligible Index, includes investment grade securities that are ERISA eligible under the underwriter's exemption and is the CMBS sector that is included in the U.S. Aggregate Index. The Barclays U.S. High Yield Index covers the universe of fixed rate, non-investment grade debt. The Barclays ABS Non AAA Index tracks the fixed-rate ABS market for bonds with collateral types of credit cards, autos and stranded-cost utility (rate reduction bonds). To be included in the index, an issue must have a fixed-rate coupon structure, have an average life of greater than or equal to one year and be part of a public deal. The indexes cannot be invested in directly and do not reflect fees and expenses.

Incorporating the MPL Asset Class into an Institutional Portfolio

Typically, some variation of mean-variance optimization (MVO)[1] or risk budgeting is used in determining asset class weightings in the institutional portfolio construction process. While not a panacea (the instability of correlations/volatility across time horizons being a major deficiency), using a framework of expected returns, volatility and correlations can be helpful in the process.

One unique challenge of fitting MPL into a MVO/risk budgeting framework is the lack of a traditional calculation of variance (driven by the lack of secondary market, and no reliable mark-to-market price discovery process for the asset). This is a good opportunity to elaborate on MPL loan valuation and how to translate loan valuation to a product-level NAV, which can then be used to estimate variance as well as correlation to other asset classes.

Valuation

Because there is no active secondary market for MPL loans, it is vital to incorporate a robust loan valuation process. MPL loans are typically valued using a "mark-to-model"[2] process. A typical model would employ a loan-level, discounted cash flow calculation to estimate the probability of each individual loan defaulting based on several macro (e.g. unemployment rate) and loan-specific (e.g. FICO score) factors. This probability of default is applied to the expected, future cash flows of the loan (i.e. principal, interest and prepayments) to calculate a loan "net present value" (NPV).

From there, it is possible to strike a portfolio-level Net Asset Value (NAV), which is the aggregate of all of portfolio assets (primarily MPL loans) less portfolio liabilities (e.g. portfolio expenses and charge-offs). It is worth restating that the primary driver of loan performance is the health of the consumer (as measured by the unemployment rate).

The calculation of a portfolio-level NAV opens the door to the development of benchmarks including the calculation of traditional statistics such as total return, variance/standard deviation, and correlation. The following table depicts the correlation of the MPL asset (using the Orchard U.S. Consumer Marketplace Lending Index) to traditional asset classes.

Marketplace Lending's Low Correlation to Other Asset Classes

Correlation of monthly total returns

INDEX NAME	Orchard Index	Barclays CMBS ERISA	Barclays ABS	Barclays US Corp HY	Barclays US Agg	Barclays US Corp IG	Barclays US TIPS	Barclays Muni Bond Index	Barclays US Treas 3-5 Year	S+P 500
Orchard Index	X	-0.08	0.00	0.02	0.05	0.00	0.09	0.12	-0.01	0.03
Barclays CMBS ERISA Elig	-0.08	X	0.88	0.26	0.93	0.85	0.77	0.65	0.89	-0.01
Barclays ABS	0.00	0.88	X	0.06	0.86	0.65	0.70	0.70	0.97	-0.30
Barclays US Corp HY	0.02	0.26	0.06	X	0.24	0.51	0.43	0.04	0.00	0.70
Barclays US Agg	0.05	0.93	0.86	0.24	X	0.90	0.84	0.84	0.89	-0.09
Barclays US Corp IG	0.00	0.85	0.65	0.51	0.90	X	0.84	0.73	0.67	0.20
Barclays US TIPS	0.09	0.77	0.70	0.43	0.84	0.84	X	0.67	-0.73	0.07
Barclays Muni Bond Index	0.12	0.65	0.70	0.04	0.84	0.73	0.67	X	0.72	-0.20
Barclays US Treas 3-5 Year	-0.01	0.89	0.97	0.00	0.89	0.67	0.73	0.72	X	-0.28
S+P 500	0.03	-0.01	-0.30	0.70	-0.09	0.20	0.07	-0.20	-0.28	X

Past performance is not a guarantee of future results. Source: Morningstar, Inc., Orchard. Correlations based on data from January 2014 through June 2016. See the Index key in the footnotes for definitions.

Armed with this data, it is clear that there would have been diversification benefits from adding MPL to an existing portfolio of traditional and alternative assets.

Isolating the fixed income side of the portfolio, RiverNorth believes the potential benefits of adding marketplace lending can be three-fold:

1. Incorporating consumer credit risk/return into a traditional portfolio typically consisting of corporate credit risk.
2. Higher coupons relative to other traditional credit instruments which have seen yields crash (Source: Federal Reserve), driven by 7+ years of an exceptionally accommodating global central bank environment.
3. It is RiverNorth's view that the illiquidity premium associated with MPL is outsized when viewed in the context of price volatility driven, at times, by technical trading in public credit markets.

A key consideration of the addition of MPL to an institutional portfolio is the effect on portfolio fees. Adding MPL exposure to a portfolio typically involves a private vehicle with a standard LP fee structure (e.g. 2% management fee and 20% incentive allocation). Benefits of the advent of MPL funds registered under the Investment Company Act of 1940 are periodic holdings disclosures and generally a lower fee structure[4]. While the trend towards lower fees has been evident across all asset classes, it is especially important in fixed-income where the primary contributor to total return is income.

The benefits of compounding those fee savings are more apparent when the investment is housed in a tax-deferred account. A simple example illuminates the substantial, compounded, benefit of investing in a lower-fee vehicle. Assuming an initial $10,000 investment in two hypothetical MPL investment vehicles, with each generating 8% in pretax, net income, and the only difference being vehicle #2 has 1% of additional, annual operating expenses, the additional 1% of income with vehicle #1 generates over $24,500 (32%) of additional wealth when compounded over 30 years[3].

Private vehicles have historically used more leverage to increase net investment income generally with the effect of increasing risk and potentially generating performance fees for the general partner/manager.

Conclusion

The significant growth in marketplace lending, combined with attractive investment attributes, has led to increasing institutional interest in the MPL asset. As the MPL industry evolves, so have the vehicles providing access to the asset class. The advent of efficient vehicles has opened the door to widespread implementation of the asset in institutional-caliber portfolios.

Viewing MPL as a distinct asset class requires considering many of the unique risks associated with the asset such as liquidity, platform and consumer risk. Proactively seeking to reduce these risks can potentially lead to an attractive income stream combined with low correlation to traditional public credit assets. When viewed from a portfolio construction perspective, adding marketplace lending exposure to a diversified institutional portfolio could improve its risk/return profile.

The significant growth in marketplace lending, combined with attractive investment attributes, has led to increasing institutional interest in the MPL asset.

Disclosures

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. RiverNorth believes the information provided here is reliable, but does not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This information is provided for informational purposes only and should not be considered tax, legal, or investment advice. References to specific securities, asset classes, and financial markets are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations. Opinions referenced are as of 9.8.2016 and are subject to change due to changes in the market, economic conditions, or changes in the legal and/or regulatory environment and may not necessarily come to pass.

The Fund's Shares will not be listed on an exchange in the foreseeable future, if at all. It is not anticipated that a secondary market for the Shares will develop unless the Shares are listed on an exchange. Thus, an investment in the Fund is not suitable for investors who might need access to the money they invest for several years or longer. The Fund may decline to accept any subscription requests for any reason regardless of the order in which such subscription request was submitted to the Fund in a particular subscription period. If a borrower is unable to make its payments on a loan, the Fund may be greatly limited in its ability to recover any outstanding principal and interest under such loan, as (among other reasons) the Fund may not have direct recourse against the borrower or may otherwise be limited in its ability to directly enforce its rights under the loan, whether through the borrower or the platform through which such loan was originated, the loan may be unsecured or under-collateralized, and/or it may be impracticable to commence a legal proceeding against the defaulting borrower. The Marketplace Lending Instruments in which the Fund may invest will not typically be guaranteed or insured by any third-party and will not typically be backed by any governmental authority. Prospective borrowers supply a variety of information regarding the purpose of the loan, income, occupation and employment status (as applicable) to the lending platforms. As a general matter, platforms do not verify the majority of this information, which may be incomplete, inaccurate, false or misleading. Prospective borrowers may misrepresent any of the information they provide to the platforms, including their intentions for the use of the loan proceeds. Marketplace Lending Instruments are generally not rated by the nationally recognized statistical rating organizations ("NRSROs"). Such unrated instruments may be comparable in quality to securities falling into any of the ratings categories used by such NRSROs. Accordingly, certain of the Fund's unrated investments could constitute a highly risky and speculative investment, similar to an investment in "junk" bonds. The Marketplace Lending Instruments in which the Fund may invest may have varying degrees of credit risk and the Fund will not be restricted by any borrower credit criteria or credit risk limitation. There can be no assurance that payments due on underlying Marketplace Loans will be made. At any given time, the Fund's portfolio may be substantially illiquid and subject to increased credit and default risk. The Shares therefore should be purchased only by investors who could afford the loss of the entire amount of their investment. The Company's fees and expenses may be considered high and, as a result, such fees and expenses may offset the Company's profits. A portion of the investments executed for the Company may take place in foreign markets. As a result of the foregoing and other risks described in this Prospectus, an investment in the Fund is considered to be highly speculative.

Past performance is not a guarantee of future results.

Investing involves risk. Principal loss is possible.

Diversification does not ensure a profit or guarantee against a loss.

RiverNorth Marketplace Lending Corporation is a closed-end fund.

The Fund is subject to fees and expenses.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus (and summary prospectus, if available) contains this and other important information about the investment company, and it may be obtained by calling 8445.569.4750. Read it carefully before investing.

RiverNorth Marketplace Lending Corporation is distributed by Quasar Distributors, LLC. RiverNorth Capital Management, LLC and Quasar Distributors, LLC are not affiliated.

[1] Modern portfolio theory (MPT), or mean-variance analysis, is a mathematical framework for assembling a portfolio of assets such that the expected return is maximized for a given level of risk, defined as variance. Its key insight is that an asset's risk and return should not be assessed by itself, but by how it contributes to a portfolio's overall risk and return.

[2] Mark-to-Model refers to the practice of pricing a position or portfolio at prices determined by financial models, in contrast to allowing the market to determine the price. Often the use of models is necessary where a market for the financial product is not available, such as with complex financial instruments.

[3] Assumptions: Starting balance of $10,000. Compounded Rate of Return for Vehicle 1: 8% Compounded Rate of Return for Vehicle 2: 7%. Balances compounded annually for 30 years. Ending value for Vehicle 1: $100,626.57. Ending value for Vehicle #2: $76,122.55. Difference: $ $24,504.02. $25,504.02/$76,122.55 = 32.2%.

[4] Private Funds generally have higher fees than 1940 Act Funds because they typically charge performance-based incentive fees in addition to the Management Fee. 1940 Act Funds do charge incentive fees.

Index Definitions

Orchard Index: Tracks the performance of the aggregate amount of loans to consumers originated and funded on eligible US-based online lending platforms.

Barclays CMBS: Measures the performance of investment-grade commercial mortgage-backed securities, which are classes of securities that represent interests in pools of commercial mortgages that are deemed ERISA eligible.

Barclays ABS Non-AAA: Tracks the fixed-rate ABS market for bonds with collateral types of credit cards, autos and stranded-cost utility (rate reduction bonds).

Barclays US High Yield: Tracks the universe of fixed rate, non-investment grade debt.

Barclays US Aggregate Bond: An unmanaged index of investment-grade fixed-rate issues with maturities of at least one year.

Barclays US Corp Investment Grade: Tracks the performance of investment grade corporate bonds.

Barclays US TIPS: Includes all publically issued, US Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more outstanding face value.

Barclays Municipal Bond: Unmanaged index that is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.

Barclays UST 3-5 Year: Includes securities in the Barclays US Treasury Index (i.e. public obligations of the U.S. Treasury) with a maturity from 3 up to (but not including) 5 years.

S&P 500: Capitalization-weighted index of 500 stocks that measures the performance of the broad domestic economy based on the changing aggregate market value of these 500 stocks.

NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

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