Hawaiian Tax-Free Trust

PORTFOLIO MANAGER COMMENTARY

Q3 2022

A Shares: **HULAX**	C Shares: **HULCX**	F Shares: **HULFX**	Y Shares: **HULYX**

Municipal Bond Market Overview

In the third quarter of 2022, the fixed income markets turned lower again after a brief reversal rally and continued a familiar trend lower in price. Relentless and consistent successive inflation reports have become routine at elevated levels. For several months, Consumer Price Index price data has hovered well above the Federal Reserve ("the Fed") pricing target of 2%. During the quarter, the Fed doubled down with a pair of additional .75% increases in the federal funds rate in July and September. The Fed also increased expectations for higher rates into 2023. The Fed has chartered and voiced a clear resolution towards raising short-term rates to whatever level it deems necessary to fight inflation. However, a bright note has emerged in the recent upward movement in interest rates: significantly higher yields for fixed income investors.

During the third quarter, the tax-exempt municipal bond yield curve flattened more than the taxable fixed income market, as lower demand for shorter maturities slackened from very rich levels. During this time period, available market supply of bonds remained muted. Despite continued tax selling from municipal mutual funds and ETFs, increasing supply in the secondary market was offset with a drop in new issuance during the quarter. For the last three months, new issue supply fell 26%, according to issuance statistics from the Municipal Bond Buyer. According to Bloomberg, tax-exempt bonds started the quarter at 2.22% in the 5-year maturity range, and 2.72% in the 10-year maturity for "AAA"-rated debt. By the end of September, the municipal bond 5-year yield rose to a high of 3.14%, and the 10-year maturity ended at a 3.26%. As we predicted, the "durability" of the brief rally during the second quarter was to be tested. The tax-exempt market now has risen to new highs in yields for the year.

Hawaii Municipal Bond Market and Economy

The Hawaiian economy remains strong. Tourism has returned, employment is stable, and State finances are considered solid. The sunset of the Hawaii Safe Travels program in March reopened the State to visitors without proof of vaccination. The visitor count is close to returning to pre-pandemic levels. A bright spot is the number of visitors from the U.S. mainland, up 113%, and above 2019 levels. Visitor expenditures are well above trend, at 6.8% over 2019 levels. This has supplemented the still-anemic travel statistics from Japan. Recently, Japan has reopened travel, but the strong dollar remains a developing headwind.

State and County finances have strengthened. Unemployment has steadily dropped, reaching 4.1% at the end of August. The State of Hawaii has reported double-digit revenue growth from General Excise and Individual income taxes, which have climbed 31% above 2019 pre-pandemic collections. The General Excise tax makes up 38% of State revenues, of which 30% is paid by non-residents. Additionally, significant progress has been made by the State with Pension and Other Post-Employment Benefits ("OPEB"/retiree medical cost) liabilities. Hawaii government workers' pension funding has risen from 55% to 62%, while, OPEB funding has improved from 16% to 30%. Finally, the general fund balance has improved, from $752 million in June of 2019 to $2.619 billion in June of 2022.

During the first half of this year, new municipal bond issuance in the local Hawaiian market was up 170% over the prior year. However, during Q3 2022, new issuance supply of Hawaiian bonds fell sharply to only 5.7% of the comparable prior year's quarter. This reflects a large calendar of new bonds brought to market in third quarter of 2021. As a result of this, year-to-date issuance has dropped by 71% from the first nine months of last year.

Fund Outlook and Strategy

Looking forward, we expect the Federal Reserve to continue a tightening trend in the near term. We expect a tapering of increases in 2023, as they monitor the impact of rate increases on the economy, inflation and employment. The unknown is the ultimate effect on inflation or whether the economy will experience a so-called hard landing, tumbling into a recession. If the economy begins to exhibit a slowdown, we could see a sharp reaction with a "flight to quality" in high-grade municipal bonds. For now, the next six to nine months point towards continuing volatility in bond markets until the future trends in the economy and the impact on Federal Reserve policy in 2023 become clearer.

To be sure, we remain vigilant of the recent trend towards higher rates and the potential impact on the portfolio. During the third quarter, we were cautious, slowly extending the Trust's duration (market interest rate risk) as rates tracked higher. By extending our duration and reinvesting recent maturities in new bonds, we focused on seeking to enhance our yield and strengthen the dividend distribution. It is important to recognize that the current market environment is an opportunity to recapture recently elusive tax-exempt yields of prior years. Although there has recently been negative price volatility during the push to higher yields, the benefit is receiving a significant improvement in tax-exempt income protected from Federal and State taxation. Generally speaking, municipal bonds continue to be considered a conservative investment and may provide portfolio diversification in the face of growing headwinds.

For specific information about fund characteristics, holdings and performance please see the Fund Fact Sheet on our website at www.aquilafunds.com.

Fund Facts as of 9/30/2022

Portfolio Management Team	Inception Date	Total Investments	Number of Holdings
REID SMITH **STEPHEN DODGE**	**2/20/1985**	**$519.4M**	**224**

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Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. A complete list of the Fund's current holdings, including percentage allocation, is available on our website and by contacting Aquila Group of Funds.

A credit spread or a yield spread is the difference between the quoted rates of return on two different investments, usually of different credit qualities but similar maturities.

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Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. Fund performance could be more volatile than that of funds with greater geographic diversification.

Before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses and other information found in the Fund prospectus. The prospectus is available from your financial advisor, and when you call 800-437-1020 or visit www.aquilafunds.com.