



Hawaiian Tax-Free Trust

PORTFOLIO MANAGER COMMENTARY

Q4 2023



A Shares: **HULAX**

C Shares: **HULCX**

F Shares: **HULFX**

Y Shares: **HULYX**

Municipal Bond Market Overview

Over the calendar year, fixed income market volatility reached historic highs and the yield curve maintained an inverted maturity slope, as the Federal Reserve (the “Fed”) continued increasing short-term interest rates. The shift in interest rates has slowed economic growth and eased inflationary pressures. Although the rate of inflation moved lower as the year progressed, it still remains elevated above the Fed’s 2% target. Employment metrics remain strong, as the economy is exhibiting underlying strength with steady job gains.

The Federal Reserve has remained resolute in its efforts to contain inflation. As inflation moderated, the Fed held firm on current rates for the fourth quarter of 2023. However, the Fed pivoted its outlook at the Federal Open Market Committee meeting in December meeting by increasing the anticipated cuts in the federal funds rate (the interest rate that banks charge each other to borrow or lend excess reserves overnight) for 2024, from 50 to 75 bps. Taking the nod from the Fed, the market rallied into year-end by imbedding what appears to be over a 125-basis point cut for the coming year. Given the likely persistence of elevated inflation, especially in the dominant services segment of the economy, Asset Management Group of the Bank of Hawaii’s outlook for rates is aligned with the Fed’s projections of a milder cut in rates when compared with the market outlook.

In the fourth quarter of 2023, the municipal bond market rallied in sympathy with its taxable brethren. The Bloomberg Municipal Index and the Bloomberg Hawaii Index increased 7.9% and 6.3%, respectively during Q4. Lower interest rates and limited supply of newly issued bonds into December bolstered returns. According to Bloomberg, the national municipal 10-year maturity “AAA” yield decreased from 3.4% to 2.3%. Meanwhile, the Hawaiian 10-year maturity fell from 3.8% to 2.4%. Issuers returned to the market during the early part of the fourth quarter, boosting supply of municipal debt. For the one-year period, the supply of new bond issuance (as recorded in The Bond Buyer) remained virtually unchanged nationally, with a similarly flat supply to last year for Hawaii bonds. All in all, it was a satisfying quarter for municipal bonds following the volatile prior year.

Recently, the fixed income markets have experienced higher than average volatility. Prices have continuously bounced around, with markets absorbing another Federal Reserve announcement or meeting minutes. This is precisely the environment where an experienced portfolio management is an important resource.

Hawaii Municipal Bond Market and Economy

Although the statistics were mixed for the third quarter of 2023 (the State of Hawaii’s most recent quarterly release), the Hawaiian economy is pushing forward, according to year-over-year State of Hawaii statistics. In Q3, tourism arrivals fell -7.4%, while still posting a positive 3.0% year-to-date through September. Despite still being below pre-pandemic visitor count, international travel was up 63.4 % for the first three quarters of 2023. Hotel occupancy remained robust at 75.3%, up slightly from a year ago.

For the third quarter of 2023, the State’s general fund tax revenue was down 1.8% compared with the same time period in 2022. Overall, an increase of 5.6% in State General Excise tax collections reduced by the decline of -8.7% in individual income tax revenues. The County of Maui is still in recovery mode from the wildfires. They are beginning to restart tourism economic activity. Unfortunately, the cleanup and rebuilding in Lahaina will take years. It was such a tremendous loss for the community. That being said, the island is opening up in a thoughtful and measured return to normal.

Fund Strategy and Outlook

Looking forward, we believe the Federal Reserve may be at the conclusion of its interest rate hikes for now. We expect the economy to slow in coming quarters and inflationary pressures may continue to ease. The unknown is whether the Fed’s goal of lower inflation can be achieved without precipitating a recession. For now, the outlook points towards a generally constructive environment for investment-grade municipal bonds.

We have opportunistically extended the portfolio’s average maturity in an attempt to lock in elevated interest rates. We believe this bodes well for how Hawaiian Tax-Free Trust is positioned given current market conditions and its objective of providing the highest level of income exempt from regular federal and state income taxes, as is consistent with preservation of capital for shareholders.

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 12/31/2023

Lead Portfolio Manager REID SMITH	Inception Date 2/20/1985	Total Investments \$474.9M	Number of Holdings 176
--------------------------------------	-----------------------------	-------------------------------	---------------------------

This information is general in nature and is not intended to provide investment, accounting, tax or legal advice. It is not intended to represent a recommendation or solicitation related to any particular investment, security or industry sector. The opinions shared are those of the portfolio manager and do not necessarily reflect those of Asset Management Group of the Bank of Hawaii, Investment Adviser for Hawaiian Tax-Free Trust, or Aquila Investment Management LLC, which serves as the Trust’s Administrator/Business Manager.

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.

Independent rating services (such as S&P Global Ratings, Moody’s Investors Services and Fitch Ratings) assign ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio. Where the independent rating services differ in the rating they assign to an issue, or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating.

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.

Modified and effective duration both measure the value of a security in response to a change in interest rates. Effective duration also takes into account the effect of embedded options.

The Bloomberg Municipal Bond Index covers the U.S. dollar-denominated, long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The Bloomberg Hawaii Index is an unmanaged index composed of a broad range of municipal bonds of issuers in the State of Hawaii. Indices are unmanaged and are not available for direct investment. Past performance does not guarantee future results.

BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively “Bloomberg”). Bloomberg or Bloomberg’s licensors own all proprietary rights in the Bloomberg Indices. Bloomberg does not approve or endorse this material or guarantee the accuracy of completeness of any information herein, nor does Bloomberg make any warranty, express or implied, as to the results to be obtained therefrom, and, to the maximum extent allowed by law, Bloomberg shall not have any liability or responsibility for injury or damages arising in connection therewith.

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. State-specific 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.