



# Aquila Narragansett Tax-Free Income Fund

PODCAST TRANSCRIPT  
November 2022



**Interviewer:**

Hello, everyone. Welcome to another Aquila Group of Funds podcast. I'm your host, Matthew DiMaggio. Today, we are joined by Jeffrey Hanna, Portfolio Manager of Aquila Narragansett Tax-Free Income Fund. Jeff will be discussing the current municipal environment, both broadly and on the state level. Thanks for sitting with us today, Jeff.

**Jeff Hanna:**

Sure. Great to be here with you, Matt. Thank you.

**Interviewer:**

Absolutely. So much has happened this year in the fixed income markets, and really beyond. Can you speak to how the municipal bond market has transformed this year, Jeff?

**Jeff Hanna:**

Sure. It's certainly gone through a number of cycles within just a very short, 10-month period so far. I would say that spreads were at historical tightness, and relative value was very strained at the beginning of the year, in the January/February timeframe, and got that way again another time during the year. We saw spreads also widen out. Currently, I'd say the municipal market, is good value overall, and I think attractive relative to other taxable bond sectors. If you look at, relative to U.S. Treasuries, which is municipal bond yields as a percentage of U.S. Treasuries, which is a beginning look at where a relative value may lie, you're seeing, on the short-end, it's less than 10 years, in the mid-70% range, which is I think is fair value. It was a little bit higher than that, but I think that's gone away. And then on the longer end, greater than 10 years, you're seeing range percentages in the 80s and 90s more recently, and I've seen things closer to 100 percent in 10 years and beyond, which is actually quite attractive. That's gone away a little bit, but I still think, relatively speaking, there's some value there—particularly, again, if we start to go in a downward rate environment. Again, I think it might be a little early to call that, but you have seen more recently a little bit of flattening in the municipal yield curve, and there's certainly some relative value. You just have to be careful and know where to pick your spots.

**Interviewer:**

And the headline topic for fixed income this year has been interest rates and inflation. We know the Federal Reserve ("the Fed") has just raised the federal funds rate earlier this month (November 2022). Could you give us your thoughts on the Fed's current position?

**Jeff Hanna:**

Sure. In my view, the Fed is back to data dependency. They've had their large moves, they've gotten through the elections, and they're basically sitting back and saying, "Okay, we've hiked rates and we've shrunk our balance sheet a bit, and let's see what the data looks like. Most recently, the October reports of the Consumer Price Index and Producer Price Index have been below expectations, which is actually positive from that standpoint. It might be a little too early to tell if that's a trend, but it is certainly welcome news, and the markets have reacted accordingly. And I think from the other standpoint, while there's decent movement in the markets, I think there's still the expectation that the Fed's going to continue hiking rates, and I think they will eventually stop. Where that ends, we don't know, but from the standpoint, I think folks should realize that the expectation is the Fed will continue to raise rates until they get to whatever their terminal rate is—currently, maybe around 5%. But it could range anywhere from 4 ¾%-5 ½%, depending on where the data comes out.

**Interviewer:**

Great insight, Jeff. So, in a year with such uncommon circumstances in the municipal bond market, I think it's understandable for investors to be a bit turned around at this point. Can you address, and ground us a little bit? Tell us what the key market drivers are in the municipal bond market currently.

**Jeff Hanna:**

Sure. I think from the standpoint of where issuance has been, we've seen issuance become less and less each year. This year in particular, we've seen a higher percentage of the issuance as tax-free, since rates have gone so much higher in such a short period of time. It really puts pressure on the refunding issues. So, you have a bit less in the way of taxable issuance, relative to tax-free issuance coming out. Relative value, I would say, is still very good from the standpoint of municipals to other asset classes. And what could make some impact here—and again, it's probably a little early to bring it up, but I will—is potential tax-

rate changes. Obviously, municipal bonds benefit from tax changes and also get hurt by tax changes. So, while that's out there, there's nothing concrete, I think it's important just to keep that in the back of your mind as we get into a new Congress. And who knows what lies ahead for us in 2023 at this point?

**Interviewer:**

Good coverage, Jeff. So, I want to shift gears here. Let's talk about credit strength in the municipal bond market, both at a macro level, as well as among issuers in Rhode Island. For anyone who may be concerned about the state of our economy, how would you assess the condition of credits?

**Jeff Hanna:**

The condition of credits has been very strong, bolstered by the Federal monies—part of the American Rescue Plan (“ARPA”) monies. Some of the COVID-related monies that have come out certainly have helped across the board, but even in and of itself, tax revenues have been strong, and continue to be strong. We are seeing a little bit around the edges from a credit quality standpoint in the lower-credit quality issuers. But those that are high-credit quality issuers really have not had any issues specifically related to credit. Credit still remains very good. I'd say in those lower credits, we have seen the airports have a negative outlook by Fitch. Lifespan, which is the primary healthcare provider here; hospitals within the State also have gone on negative outlook. So, it just bears watching. Clearly, during the pandemic, there were a fair amount of Federal monies that helped these organizations. And not just in Rhode Island, but nationally, helped them get through. But we are starting to see traffic pick up at the airport. We are getting back to elective surgeries at the hospitals. So again, while margins continue to be squeezed, I think it's important to note that there's still a little bit of vulnerability there.

**Interviewer:**

Thanks, Jeff. And is there anything else happening locally in the municipal bond market within Rhode Island?

**Jeff Hanna:**

Well, we just passed three bond referenda here, one for \$100 million for the University of Rhode Island's Bay Campus for some upgrades there. There's another \$250 million public schools bond. Basically, those monies go to the local school districts, tend to be matching funds, providing some upgrades to classrooms, to school buildings and the like. And then there's also a \$30 million green bond, which basically has a number of different areas of impact; whether it's clean water, whether it's open space. There's Roger Williams Park Zoo has some money earmarked for it for some upgrades. Anything related to visitors to our State, and some open space as well.

**Interviewer:**

And having just passed our mid-term elections, it seems a lot of voters were in support of the general obligation bonds on the ballots. So, that's great news for this year relative to past years as well. All right, to close out today's podcast, it would be great if you can cover the Narragansett Fund's strategy and outlook.

**Jeff Hanna:**

Sure. We focus on high quality bonds. There isn't a great deal of lower-rated issuers within the State. So, I think from the credit standpoint, the portfolio's relatively solid. And I would say from the positioning, again, we've been a little bit longer than benchmark duration, again for various reasons. Some of that has to do with the amount of issuance within the State, and just positioning. So, from that standpoint, we're a little bit longer, so we've lagged as rates have moved up. More recently, as we started to see a little bit of collapse of spreads, a little bit of flattening on the municipal yield curve, we've actually been beneficiaries of that. So again, I think it's making sure that we have good-quality credits, continued diversification within the portfolio, which I always continue and strive to do, and making sure that we're positioned for the long haul.

**Interviewer:**

Alright, that wraps up for today, Jeff. Thanks again for taking the time to discuss the municipal bond market with us.

**Jeff Hanna:**

I'm glad to be here. Thank you very much.

This presentation by Clarfeld Financial Advisors, LLC (“Clarfeld”), the Sub-Adviser to the Fund, is intended for general information purposes only. No portion of the presentation serves as the receipt of, or as a substitute for, personalized investment advice from Clarfeld or any other investment professional of your choosing. No opinions shared are those of the portfolio managers and do not necessarily reflect those of the Investment Adviser or Sub-Adviser of the Fund.

The Fund seeks to provide a high level of income exempt from state and federal income tax as is consistent with capital preservation. Past performance does not guarantee future results.

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.

For certain investors, some dividends may be subject to federal and state income taxes, including the alternative minimum tax referred to as AMT. And for certain investors, net investment income tax, known as NIIT may apply. NIIT is a 3.8% tax established by the patient protection and affordable care act that applies to the lesser of, the net investment income, or a taxpayer’s modified adjusted gross income above an applicable threshold amount. Please consult your tax professional.

Independent rating services such as Standard & Poor’s, Moody’s, and Fitch assign ratings which generally range from AAA highest to D lowest, to indicate the creditworthiness of underlying bonds in the portfolio. Where the independent rating services differ in the rating assigned to an issue or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating. Pre-refunded or escrowed bonds are issued to retire or regain an outstanding bond issue at a specific call date. Until the call date, the proceeds of the bond issuance are typically placed in a trust and invested in U.S. treasury bonds or state and local government securities.

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 weighted average life, also referred to as weighted average maturity, is a reflection of the quickness with which the principal of an issue is expected to be paid.

A credit spread is a difference in yield between two bonds of similar maturity, but different credit quality. Taxable equivalent yield is the return that is required on a taxable investment to make it equal to the return on a tax-exempt investment.

Yield is expressed as a percentage based on the invested amount, current market value, or face value of the security, and includes the interest earned or dividends received from holding a particular security. The yield ratio represents the comparison of the expected yield of one bond to the expected yield of another. A yield ratio is important when deciding whether to invest in one bond or another. Generally, the higher yield is considered better.

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 the 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 a 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, when you visit [www.aquilafunds.com](http://www.aquilafunds.com), or call (800) 437-1020.*