Aquila Narragansett Tax-Free Income Fund

PODCAST TRANSCRIPT

October 2023

Interviewer:
Thank you for joining us for another Aquila Group of Funds podcast. I'll be your host, Matthew DiMaggio. Today we are joined by Jeffrey Hanna, Lead Portfolio Manager of Aquila Narragansett Tax-Free Income Fund. Thank you for joining us today, Jeff.

Jeff Hanna:
Glad to be here, Matt.

Interviewer:
Fantastic. As it stands today, how would you describe the state of the municipal bond market?

Jeff Hanna:
Well, I'd say the municipal bond market is healthy. I don't know about necessarily happy. But from the standpoint of relative value in here, in credit quality, I think things are fair value from that standpoint relative to taxable U.S. Treasuries. And as far as issuances, it's down a little bit on a year-to-date basis. But on a year-over-year basis, it's actually a little bit better, up about probably around 3% on a year-over-year basis. So, I think from that standpoint, municipal bonds are still around, and I still think they provide some great opportunity in here from time to time. And certainly during the third quarter of 2023, we did see municipal bonds cheapen up a little bit. While they're not quite at their historical averages, they still appear to be a little bit more rich, if you will, versus historical. But considering where we started the beginning of the quarter, it's clearly looked to be a little more attractive.

Interviewer:
Thank you, Jeff. So, there are certainly a bunch of macroeconomic events and circumstances happening right now. What key factors though would you say are affecting the municipal bond market more specifically, and what should we be watching?

Jeff Hanna:
I think one certainly is the Federal Reserve (the "Fed"), and that's been the constant over the last year, and about a year and a half now. And I think we, at least it appears, are getting near the end of the Fed's monetary tightening cycle. But again, as long as inflation behaves itself, we should see things settle down a little bit. There is an expectation that the Fed will raise rates one more time—could be two if inflation is out of hand. But I think the Fed is really watching the economic data, which they've been very good about doing and communicating with the market. And I think they are expecting, at least at this point, to hold rates "higher for longer." So, from that standpoint, I think that's really one of the major issues.

More recently with what's going on in the Middle East, I think what we've seen, at least over the last few days, has been really a little bit more of a "flight to quality." You have seen rates come down a little bit. Equity markets actually have held up and been very resilient in the face of that. But I think the bond market has been up the last few days, really due to a flight to quality. If and when things settle down, we may see that play out a little bit differently. However, all in all, our markets seem to be functioning okay in here.

Interviewer:
And as we look at the municipal bond market currently, how would you say this market cycle compares or sets itself apart from those markets of the past?

Jeff Hanna:
Well, I think from markets of the past, we've had credit concerns. While we are starting to see at least some of the lesser credit quality issuers experience a little bit in the way of deterioration, generally, we really haven't seen a lot of that. Clearly coming out of the COVID situation, a lot of municipalities were propped up by federal monies, and those monies have gone away. But I think states and municipalities seem to be handling that fairly well at this point. And again, that's something where we haven't really seen a credit issue on the high- quality side of things in quite some time. While that certainly doesn't mean that'll never happen, clearly, I think municipalities and states have done a pretty good job of managing their fiscal responsibilities and keeping payrolls at reasonable levels, not adding a lot of jobs necessarily, and basically managing their budgets.

Interviewer:
Great stuff. Can you speak a bit about the Aquila Narragansett Tax-Free Income Fund's investment strategy and how you're positioning the Fund, or whether you're seeing opportunities out there?

Jeff Hanna:
Sure. I'd say from the standpoint of getting towards the end of the Fed's tightening cycle, clearly the municipal bond market has offered some opportunity. Part of that has to do with extending out a little bit in terms of duration. Clearly there's value, particularly in the 11–15-year range. And while that's a little bit longer than normal, again, most issues here in the State of Rhode Island have a call provision after 10 years. So, with a higher coupon issuance, typically you're getting the bond to the call, not to the maturity. And again, there's not a great deal of extension risk there, but there is considerable pickup in yield for the time being. Again, I don't think that opportunity stays there forever.

Interviewer:
And if we may drill down on the State of Rhode Island a little bit, what are some of the latest developments impacting the State, whether it's the local economy or the municipalities?

Jeff Hanna:
I think all seems to be okay here in Rhode Island. A couple of items. I guess one would be, while Rhode Island is showing an unemployment rate that's at historically low levels, part of that is we are also experiencing a shortage or a drop-off, if you will, in employment itself. There are always two sides to the unemployment number. One is job growth, and we do see shrinking jobs here based in the State, which is a little concerning and we've continued to see that for a little while. But on the other side, most people who are looking for work have been able to find work. So, it's kind of a little bit of a balancing act there.

Also, I will say, the State again this year, for the fiscal year ended June 30, actually ended up with a budget surplus for the fiscal year. And while that number was larger than expected, there are a couple of things to talk about there. One is, yes, tax collections actually were a little better than expected, which is not necessarily a bad sign, but it's on the spending side. So, the State actually did not spend as much as it had budgeted, and that number was fairly large. And then part of that also has to do with the timing of projects. A lot of the funding had to do with housing, and building affordable housing within the State. Obviously, that takes time. So, there is a timing issue. Tax revenue collection comes in a fairly regular schedule. The building of housing obviously takes considerably more time to get that to occupancy. So, there is definitely that timing.

Interviewer:
Great, Jeff. And one last thing, you covered a lot of great information here in a short time with some fantastic insight. What would be the key takeaways you'd like to drive home for our listeners about the municipal bond market?

Jeff Hanna:
Well, I think, again, the municipal bond market, like every market, does provide opportunity. Again, while during the beginning of the third quarter, we did see valuations look a little bit rich. They have cheapened up a little bit. They're getting a little close to the fair value. But again, the markets can be a little finicky in here. So, I think from the standpoint of trying to pick your spots, you have to be very careful with that. But I think overall, clearly municipal bonds make a lot of sense to, again, part of a broader diversification strategy within your investment portfolio. And they provide income—tax-free income. Again, interest rates are kind of leveling off in here. There's some relative value, but on a tax equivalent basis, municipal bonds still make a great deal of sense.

Interviewer:
All right, that's all for today. Thank you again for joining us, Jeff.

Jeff Hanna:
Great. Thanks for having me, Matt.

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.

The American Rescue Plan Act of 2021 ("ARPA") was signed into law, designed to additional funding for state and local governments as a result of the coronavirus pandemic.

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, or call (800) 437-1020.