Aquila Narragansett Tax-Free Income Fund
Podcast Transcript   March 6, 2018

Interviewer:
Today we're talking to Jeff Hanna, portfolio manager of Aquila Narragansett Tax-Free Income Fund. Tax reform legislation, The Tax Cuts and Jobs Act, was signed in December of 2017. What are the most significant impacts of that legislation on the municipal bond market?

Jeff Hanna:
Well, I think there are three, really, that come out of this. One is the changes in tax rates, which were much anticipated. All the tax brackets, the number of tax brackets actually stayed the same. But within those tax rates, the income ranges actually changed rather significantly. Secondly, the changes in deductions. So there are fewer for higher income tax payers, and you had some phase-outs in some instances as well.

Also, you had some states making necessary adjustments; those that are a little bit more tied towards the federal, or piggybacked if you will, are making some changes. In Rhode Island, actually, that wasn't necessary. Rhode Island went off of the piggyback tax a number of years ago, although it fairly closely reflects a certain percentage of the federal.

Interviewer:
Looking at the markets from a national perspective, what are your expectations regarding investor demand for municipal bonds, and the supply of bonds available to meet that demand; and are there factors in Rhode Island that impact local supply and demand expectations?

Jeff Hanna:
I think demand still remains fairly high. The percentages – munis as a percent of treasuries – which is kind of a historical measure of relative value, is still fairly tight. They look fairly expensive – in the 70 percent ranges – which is still overall on the tighter side. So I think demand remains high. Again, for the folks in the highest tax brackets, really, I think that demand is going to remain.

Supply, unfortunately I guess, also remains low. So there really hasn't been a whole heck of a lot of supply coming out. So that's also kept demand in check. So demand is high; supply is low; so it makes for a fairly difficult market. With respect to Rhode Island, again, there's not a lot going on. I think Rhode Island's wrung all the juice out of the orange, so to speak, with respect to refinancing. There isn't a great deal more they can do. They've had programs over the last few years to do refinancing and refundings, and they've done a good job with that.

So, outside of that, a lot of this is going to be new supply, and I think that's going to remain fairly muted for the time being.

Interviewer:
After nearly a decade of a very low Federal Funds rate, The Fed has introduced several rate increases. How would you summarize the market activity you've seen related to changes in the yield curve and credit spreads?

Jeff Hanna:
We've seen some steepening in anticipation of higher inflation and higher growth. It's still bouncing around pretty good. You saw some steepening, actually, right after you saw the two, particularly the first, equity market corrections here a couple weeks ago. Along with that more recently, you've seen a little bit of yield curve flattening. So I think it's still trying to get its footing. It's still trying to digest all the information. While the Federal Reserve has increased, and is expected to continue to increase, short-term interest rates, they're very

cognizant of the impacts and, I think, will be very cautious and try to be as transparent as they can going forward.

In addition, you have the Federal Reserve balance sheet shrinking, and I think that's slowly having an impact, although our interest rates here in the US are still considerably higher than those of the major developed economies overseas. As far as credit spreads, it's been very little with respect to the impact on credit spreads at this point.

Interviewer:
Given the high quality intermediate maturity profile of the fund, how are you strategically navigating this market?

Jeff Hanna:
Well, a lot of it's kind of managing the cash flows in and out of the Fund, as well as the cash flows from the bonds in the portfolio. Prepaid bonds are available too, in the event that rates actually move up and the yield curve steepens. So we have a fairly robust program going forward, should we get increases in interest rates, to kind of move out on the yield curve where it looks attractive. So we do have quite a bit of flexibility built into the overall portfolio.

Interviewer:
Speaking of navigation, how is Rhode Island doing in terms of managing public employee pension funding?

Jeff Hanna:
The returns more recently have been very good for the fiscal year. The funding percentage hasn't moved a great deal, certainly not enough; and again, returns can only do so much in making up for many, many years of underperformance. Local plans, however, are actually still lagging; so there is a fair amount of work being done to make sure that local plans – these are cities and towns as well as other fire pension, and employee type plans – get funded by the respective municipalities.

Interviewer:
The President introduced his $1.5 trillion infrastructure initiative on February 12th. How might the plan impact the municipal bond market?

Jeff Hanna:
Well, I think depending on the structure, normally you get the federal government matching funds to the states to issue bonds. So from that standpoint it's depending on that program and how that's being done. I can say, as far as Rhode Island is concerned, we had our program here for the last year or two called Rhode Works, which is our own infrastructure program that's being done at the state level. There has been some borrowing and some bonds issued for that, and there will probably continue to be more. With federal matching funds or federal funds available, I would imagine that program will continue to be funded for the time being.

With respect to supply, certainly that could impact on supply considerably depending on the timing and how those funds are given by the federal government or offered to the state as part of matching funds for highways and bridges and the like.

Interviewer:
Thank you very much. For those of you listening, before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses, and other information found in the Fund prospectus, which is available on this site, from your financial advisor, and when you call 800-437-1020.

Thank you for listening to this podcast.