

Aquila Tax-Free Fund of Colorado

Podcast Transcript May 8, 2019

Interviewer:

Today we're talking to Chris Johns, portfolio manager of Aquila Tax-Free Fund of Colorado. On May 1st, Federal Reserve officials decided to hold rates steady and stated that key economic activity had slowed during the first quarter. How have bond markets reacted to the announcement?

Chris Johns:

Well generally speaking, since May 1st, we've seen interest rates decline a little bit. The Fed action of holding rates steady was largely anticipated. There wasn't any market consensus that the rates were going to go up or down on the short end. But largely speaking, interest rates have declined a little bit.

Interviewer:

Americans recently filed their first tax returns with the state and local tax, or SALT, deduction caps in place. Do you think that change in the tax law had an impact on the municipal bond market?

Chris Johns:

Most definitely. I think that what a lot of taxpayers have found here in recent months is that the cap on state and local taxes created a greater tax burden than the small cut they received in tax rates. So what impact this has had on the municipal bond market is we've seen an increase in demand for municipal bonds as taxpayers have noticed their tax bills actually going up.

Interviewer:

How has new issue supply year to date changed versus 2017 and 2018, and what are you anticipating over the remainder of this year?

Chris Johns:

To date, so far, it's been pretty close to 2017 and '18 for the first quarter, but we think that will change for the full year. We believe that supply in Colorado will be a little less in 2019 than it was in 2018, and particularly 2017, when we had a record year. Most of the school districts in Colorado that have floated bond issues and had them passed have issued their debt, so that's kind of behind us now. So we think that the pace of new issuance will slow in 2019.

Interviewer:

We've seen generally positive economic indicators in recent months. How would you assess the financial strength of municipal bond issuers in general, and are there particular sectors that you find attractive?

Chris Johns:

It's a good observation. The economy in the state has done very well in recent years, and the overall health of municipal issuers is pretty good right now. And we think that will continue for the foreseeable future here. We've seen real estate prices rise and for tax backed bonds, that's a good sign. We've seen sales tax revenues in Colorado reach record levels, and so for anything backed by that, the security is very, very good. So overall, the economic health of the state has improved credit quality throughout the state.

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Interviewer:

Would you please describe your current strategy and the positioning of the Fund?

Chris Johns:

Yes. This year, we're going to see probably a slight extension in the duration of the portfolio. In recent years, we've had a preponderance of pre-refunded bonds, or very short, high-quality bonds that are starting to mature, and we're starting to sell them. Unlike the Treasury market, where the yields are very flat from, say 2 years to 10 years, there's still some pickup in yield the further out you go in the municipal bond market. So we're taking this opportunity to take the proceeds from the shorter end of the portfolio, whether they be sales or maturities, and invest them in the, oh, 12 to 14 year range, so we'll see a slight extension in maturity, maybe a duration of four and a half years or so by the end of the year. So not a big change, but we want to take advantage of the higher yields that are available a little further out on the curve.

Interviewer:

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