

# Aquila Tax-Free Trust of Oregon

## Podcast Transcript November 2, 2016

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**Moderator:**

Today we're talking to Chris Johns, Portfolio Manager of Aquila Tax Free Trust of Oregon. Chris, through September 30th of this year municipal bond mutual fund inflows totaled \$3 billion for the month and \$50 billion year to date. It's been reported that foreign buyers and banks are among crossover buyers entering the market, although they have no tax advantage. Do you expect that crossover buyers will remain a factor in the municipal market in near term?

**Chris Johns:**

Yes, we think crossover buyers will be in the market for a while, but their stay is usually temporary. Typically, when we get new entrants into the municipal bond market that aren't normal participants they enter the market opportunistically but they won't stay for a long period of time. As soon as the relationship between taxable yields and tax free yields kind of normalizes those types of investors will leave the market very quickly.

So those of us longtime participants in the muni market may like it for a while because of the increased liquidity from the new participants. They don't stay around for long, and when they leave they usually leave in a hurry.

**Moderator:**

How has new issuance in Oregon compared this year to new issuance nationally?

**Chris Johns:**

New issuance in Oregon has probably been our greatest challenge this year. Through September new issuance was down about 35 percent from 2015. A total of about \$3.2 billion has been issued so far this year. That's been driven largely by the fact that last year in November we had a very small amount of new bonds approved at the ballots.

We think that situation is going to change this year. We have a much larger bond slate. For this November \$2.5 billion is being requested at the ballot box, so if we get some percentage of that approved, that should the end the year and start off next year with a better supply situation that we had in 2016.

**Moderator:**

As of September 30th a little more than 20 percent of the portfolio was invested in pre refunded bonds. Would you explain the pre refunded designation and why those bonds are such a significant portion of the fund holdings?

**Chris Johns:**

That's a real good question. It's a real important part of our portfolio right now. What a pre refunded bond is, is very similar to the concept of you and I refinancing our house when rates decline. Municipal bond issuers can refinance their older, higher interest rate debt, and when they do that they take the proceeds from the new bond issue and buy treasury and agency securities that will pay off the old bond issue, so that old bond issue then becomes backed by treasury and agency securities and it's exceptionally high quality and very liquid.

So we have such a large percentage of those in our portfolio because as interest rates have declined many of the issuers have refinanced their old bonds. Normally we would sell those bonds and try and reinvest in something with a higher yield, but all these bonds are maintaining their original yields that we bought them at a few years ago, which are much higher than are available in today's market.

So they're providing a great current yield, but probably more importantly what they provide is liquidity, so that if we get into a period of time

where interest rates are rising or there's fear in the market, these pre refunded bonds provide a great source of liquidity that we can trade out of very quickly if we need to and very efficiently without having to worry about, you know, trying to find a good bid for the bond. So the high yield and the liquidity are great characteristics that the pre refunded bonds add to our portfolio.

**Moderator:**

How would you describe your overall strategy in the current market environment?

**Chris Johns:**

Well, I would say that right now we're fairly defensive, and what we mean by that is we've, over the last few years, allowed the portfolio to get shorter in maturity and duration, and as interest rates have declined another phenomenon that's occurred is that some of the lower quality bond yields have dropped much more so that at this point in time you're really aren't being paid to take the risk of lower quality bonds.

So we've got a little shorter in maturity, a little bit higher in quality and we're kind of prepared for a period of time where we want to be very careful with what happens in portfolios. So I guess the way we look at it right now is that we want to be flexible, we want to be liquid and we want to be able to take advantage of any opportunities that present themselves should interest rates start to rise a little bit. It seems likely that that could happen maybe even as soon as December of this year, and maybe a slightly upward bias as soon as the entrance into 2017, so we just want to make sure that we're in a position to be able to do that, so we're very liquid and very high quality at the moment.

**Moderator:**

Are you continuing to see improvement in the Oregon economy?

**Chris Johns:**

Yes; the economy in Oregon has been one of the strongest states in the country with regard to economic performance but growth is starting to level off as the cycle matures here. It's largely attributed to underlying fundamentals, its industrial structure and strong in-migration flows; people who are moving to Oregon. We've seen a very, very strong real estate market, particularly in the Portland area. That's starting to level off a little bit because of some affordability issues but overall the economic growth has been broad based around most areas of the state and we've really benefitted from that in terms of improving credit strength of Oregon municipal bond issuers.

**Moderator:**

Thank you, Chris. 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.

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