Aquila Tax-Free Trust of Oregon
Podcast Transcript May 8, 2019

Interviewer:
Today we're talking to Chris Johns, portfolio manager of Aquila Tax-Free Trust of Oregon. 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 tax payers have noticed their tax bills actually going up. Particularly in a high tax state like Oregon.

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:
In the state of Oregon, we think that we'll see a little bit better issuance in 2019 versus last year. Particularly if we have a good May ballot. We think there's going to be several elections on the ballot that could pass. The other thing that's different about 2019, in Oregon, is that we're going to see more activity from the State of Oregon and it's major agencies than we saw in 2018. Last year they kind of reached their debt ceiling limit early in the year and kind of retreated from the market. Whereas this year they have some room under their debt ceiling and so we think we'll continue to see additional issuance to the point where there was actually more than last year by the state and the major agencies.

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:
In the State of Oregon, we've seen real estate values increase and that helps all tax backed bonds. Most issuers are in probably better financial condition than they've been in years. One concern remains and that is the PERS liability that each one of these issuers have and that's something that we watch very closely and determine how that liability impacts their ability to pay debt and debt service in the future. So that's something we watch very closely.

As far as sectors that are attractive, you know it's hard to really differentiate among sectors these days. In the low interest rate environment, one of the things we've seen is the difference between higher quality bonds and lower quality bonds. The yields are very close together, so there aren't particular sectors that are considered cheap or attractive right now. They've kind of melded together. So for us, we're sticking with the higher credit quality issues since you simply aren't being rewarded for the risk of the lower credit quality issues. So there's not as much difference as there has been in the past.

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 pick-up 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, and 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:
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.

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