



Investment Commentary

September, 2018



A Shares: HULAX

C Shares: HULCX

Y Shares: HULYX

Municipal Market

At the September FOMC meeting, the Fed increased the target range for the federal funds rate to 2.00-2.25%, an increase of 25 basis points which was in line with market expectations. We continue to expect the possibility of one more rate hike this year. Since the rate hike in September, 10-year Treasury rates reached a new high of 3.25%. At this point, it appears that the recent rise in long-term yields has been driven by a host of positive news on the U.S. Economy and easing trade tensions as opposed to higher inflation expectations. Therefore, we expect yields to stabilize around these levels as long as geopolitical issues don't shift the market. Despite the rise in U.S. Treasuries, it is good to keep in mind that Hawaiian Tax Free Trust has a duration (interest rate risk) that is approximately 50% less than the 10 year treasury. This has kept shareholders' values relatively stable even as rates have risen. Further, the Fund's taxable equivalent yield has been boosted by higher rates.

Hawaii Economy

The Hawaii economy continued to show strength in the second quarter (as third quarter numbers have not been released at the time of publication) and the fundamental economic outlook remains favorable. Global tourism and construction continues to remain strong despite the most recent natural disasters that hit the Big Island, Kauai and Maui. As of now, the flooding and volcanic activity appears to have had a manageable impact on all three counties' financial health. Hurricane Lane effects were minimal to the overall State's fiscal health and we all recognize that we were very lucky.

Year-to-date visitor arrivals were 8% higher than a year ago and visitor expenditures were also higher by 9%. In the second quarter of 2018, State general fund tax revenues were up \$173 million, an increase of more than 10% from the same period last year. The Hawaii labor market continues to be very healthy with the health-care sector making the greatest contribution to statewide job growth. With these positive economic trends, the Department of Business, Economic Development & Tourism continues to expect positive growth in 2018 and 2019.

Fund Update

During the 3rd quarter, there were three new municipal bond issuances in Hawaii: Hawaii State- Airport System, Honolulu City & County G.O and Maui County G.O. The Trust participated in all three new issues and looks forward to one new issuance in January 2019. These issues provided an opportunity to add highly-rated bonds to the portfolio offering additional yield and diversification.

Throughout the quarter, the Trust's effective duration was a little shorter than the Bloomberg Barclays Quality Intermediate Index at around 4.30 versus a 4.40. The Trust also has less interest rate risk than the overall Bloomberg Barclays Hawaii Index which has an average duration of 5.10%. With about 10% of the portfolio maturing within a year and rates anticipated to move upwards, we look forward to reinvesting these maturities into higher yielding issues. We continue to manage the Trust prudently - both in terms of credit quality and interest rate risk, by investing primarily in highly-rated municipal bonds with an average intermediate maturity. Hawaiian Tax-Free Trust also continued to maintain its high credit quality with 80% of the portfolio either pre-refunded, or rated AA or higher.

Fund Facts

Portfolio Management Team	Inception Date	Assets Under Management	Number of Holdings
Stephen Rodgers	2/20/1985	\$671.4M (as of 09/30/18)	246 (as of 09/30/18)
Janet Katakura			
Stephanie Nomura			

Before investing in the 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, and when you call 800-437-1020 or visit www.aquilafunds.com.