



Aquila High Income Fund

PODCAST TRANSCRIPT

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Interviewer:

Hello. Welcome to a special episode of the Aquila Group of Funds Podcast Series. We will speak with and introduce David Schiffman, the new Lead Portfolio Manager of the Aquila High Income Fund. David will discuss in detail the new in-house management team of the High Income Fund, as well as David's thoughts on high-yield portfolio management. David, thank you for joining us.

David Schiffman:

It's a pleasure to be here, Phil.

Interviewer:

Let's start with the people. I understand it's a four-person team. Tell us a little bit about yourself and the team.

David Schiffman:

My name is Dave Schiffman. I joined the firm in September of 2021 as Lead Portfolio Manager for the Aquila High Income Fund. I reside in Long Island with my wife of 30 years, and I have three grown children. I enjoy golf, hiking, fishing, and camping, and I'm based out of our New York City office. I have well over 30 years of experience managing institutional investment portfolios and have strong credentials in credit sensitive products, such as high-yield. High quality, due diligence, and company fundamental analysis has really been the cornerstone of my success, as I began my career as a high-yield analyst at Sun America, helping to manage two mutual funds. I'll have to say this intense, comprehensive, bottom-up approach is really shared by our entire group that we created here at Aquila. We're bringing a top-notch investment team to Aquila with a combined experience of over 97 years. Pedro Marcal, as Director of Equities and High Yield, will help co-manage the High Income Fund with me and has more than 27 years' experience as an investment professional. Pedro will not only co-manage the portfolio with me, but will be covering the Energy and Consumer Staples sectors. I was fortunate enough to work with Pedro at Foresters Investment Management, where we both collaborated on numerous investment themes and asset allocation decisions. We're also joined at Aquila by John McPeake, one of our Research Analysts, who also worked with Pedro and I at Foresters. John has approximately 25 years' experience as both a portfolio manager and research analyst, and will cover sectors, such as Information Technology, Communications, and Consumer Discretionary. Last but certainly not least is Steven Yang, who joins us at Aquila with more than 15 years of research experience and will cover industrials, healthcare and materials. Our entire team is extremely excited to join the Aquila Group of Funds, and look forward to providing an expert level of service to our shareholders.

Interviewer:

The Aquila High Income Fund investment objective was and is to obtain high current income. Capital appreciation is a secondary objective when consistent with the Fund's primary objective. Historically, advisors have appreciated the risk mitigation process applied to the portfolio. While the overall investment strategy will remain the same, can you please discuss changes or enhancements and how the strategy will be implemented in managing the Fund?

David Schiffman:

Sure. I think you bring up an important point here, Phil. The investment objective is not changing. High current income, with capital appreciation as a secondary objective. Our strategy really revolves around the "three M's," I call it. Monitoring, managing, and mitigating risk. We use a combination of top-down macroeconomic reviews, quantitative portfolio analysis, and bottom-up in-depth credit due diligence. So, let me just explain a little bit more about how that process works when we're overseeing the High Income Fund. Our process starts with a comprehensive review of the benchmark. If you don't understand your benchmark, it's very difficult to manage a portfolio. So, that's going to include an analysis of duration weightings across the curve, sector allocation, and credit risk metrics. A comprehensive understanding of the benchmark allows us to determine where opportunities might be in constructing our portfolio. Then we're going to move on to a top-down macroeconomic analysis to create a theme for optimal portfolio construction. And that means understanding where we want to set our duration targets, figure out what the sector allocations we feel are necessary based upon our macro, top-down approach, and then look at our credit quality ratings. Finally, we're going to perform in-depth credit analysis to identify companies with improving metrics and a potential for credit upgrades. We believe the companies with the most potential for upside are those experiencing positive change. These changes can be internal and company-specific, or they can be external and driven by the environment in which the company operates. Internal changes include a new product development cycle or an innovative new technology. External changes might include changes in the industry dynamics or changes in the regulatory environment. Examples of these might be a rapid shift in online shopping from bricks and mortar that accelerated during the pandemic, as well as the Fed holding interest rates low and

expanding their balance sheet. Finally, we do an in-depth relative value analysis of bonds issued by the preferred credits to determine which positions might be most attractively priced based upon our portfolio construction needs.

Interviewer:

You have very specific thoughts about risk, the importance of managing duration risk, credit risk, and default risk. What are your goals and how do you intend to accomplish them in terms of this?

David Schiffman:

That's a great question. And again, risk is at the highlight and cornerstone of how we're going to be managing this Fund. I'll go back to something I learned many, many years ago from a grizzly Wall Street veteran, who said to me, "Dave, when managing fixed income assets, it's not the money you make. It's the money you don't lose." And I truly took that to heart throughout my career in managing fixed income assets. So, I would say in terms of your question regarding risks, and you identified a lot of them. Whether it's duration risk, which is a measure of how a portfolio might perform as interest rates move up and down. Obviously, a high income fund has credit risk. We're investing in corporate bonds. And then of course, default risk, which relates directly to credit risk.

So, I would say to sum it all up here, it's "do no harm." We want to avoid those landmines. We're really leaning on our underlying in-depth, comprehensive fundamental analysis to identify companies with improving metrics based upon what I've talked about earlier. So, we're really, truly trying to mitigate risk to ensure we're preserving principal, while providing high income and above-market risk adjusted returns.

Interviewer:

With that in mind, how do you identify opportunities to add incremental yield as they become available, while concurrently managing and seeking to reduce these risks?

David Schiffman:

So, this goes back to a little bit about the differences in terms of how we're going to be managing the portfolio going forward. Since we're reviewing the entire high-yield universe, and consistently evaluating and identifying macroeconomic themes, we truly will have the ability to be nimble. We can reallocate to different sectors and credit ratings to take advantage of various opportunities without limiting ourselves. In addition, I think our comprehensive relative value analysis of specific bonds in the market allows us to identify periodic anomalies due to inefficiencies in the market. And that truly is where we can get that incremental yield and income. Based upon where the economy is, where it's headed, our macroeconomic analysis will determine that. Interest rate movements and underlying fundamental analysis will allow us to pick and choose which sectors of the market we feel are going to be opportune to add that incremental yield and income. Inefficiencies in the market are tremendous, and our nimble approach will allow us to take those opportunities to the next level.

Interviewer:

Lastly, if I'm a shareholder or an advisor, how can you assure me that my investment or my client's investment will be prudently managed?

David Schiffman:

I think prudent management is all about risk management and portfolio construction. And our team is intensely focused on these. We consider several kinds of risks in our portfolio construction process. By adhering to our strict focus on monitoring, managing, and mitigating risks (don't forget, it's the three M's), while implementing our top-down and bottom-up process. All of these different lenses of risk are applied to each purchase and sale decision, as well as weekly portfolio monitoring meetings. It's important that we adjust position sizes and sector allocation over time, as our views on each company and industry evolve, and that we adhere to a strict sell discipline.

Interviewer:

Sounds great. David, thank you for your time today and your insights on the team and investment philosophy. We're really excited to have you and the team here and have a great day.

David Schiffman:

Thank you so much. Very excited to be here. Looking forward to great things at Aquila.

Thank you for listening to this podcast. The opinions shared are those of the portfolio managers and do not necessarily reflect those of the investment advisor of the Fund. Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio.

Mutual fund investing involves risk. Loss of principal is possible. Investments are not FDIC insured, not bank guaranteed, not NCUA insured, and may lose value.

Aquila High Income Fund will typically include a high proportion, perhaps even 100%, of high-yield, high-risk securities rated below investment-grade. High income corporate bonds generally have greater credit risk than other types of fixed income securities, and may be especially sensitive to economic and political changes or adverse developments specific to the company that issued the bond.

Please refer to the Fund prospectus for a complete description of risk associated with an investment in this Fund. Before investing in a fund, carefully read about and consider the investment objectives, risks, charges, expenses, and other information found in the prospectus. The prospectus is available from your financial advisor or when you visit www.aquilafunds.com or call 1-800-437-1020.

For certain investors, net investment income tax known as NIIT may apply. NIIT is a 3.8% tax established by the Patient Protection and Affordable Care Act that applies to the lesser of the net investment income or taxpayers modified adjusted gross income above an applicable threshold amount.

Independent rating services, such as Standard and Poor's, Moody's, and Fitch assigned ratings which generally range from AAA, the highest, to D, the lowest, to indicate the credit worthiness of underlying bonds in the portfolio. Where the independent rating services differ in the ratings assigned to an issue, or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating. Pre-refunded or escrowed bonds are issued to retire or gain an outstanding bond issue at [did something get lost in the translation of the audio?] a specific call date. Until the call date, the proceeds of the bond issuance are typically placed in a trust and invested in U.S. Treasury Bonds or state and local government securities.

Modified and effective duration, both measure the value of a security in response to a change in interest rates. Effective duration also takes into account the effect of embedded options. The weighted average life, also referred to as weighted average maturity, is a reflection of the quickness with which the principal of an issue is expected to be paid.

The Bloomberg US Corporate High Yield index is an unmanaged index considered representative of the universe of fixed rate non-investment grade debt. The performance of an index does not reflect management fees and expenses, which are reflected in fund performance. An investment cannot be made directly into an index. Past performance does not guarantee future results.