Hawaiian Tax-Free Trust
Podcast Transcript August 22, 2019

Interviewer:
Aloha. This is Pierre Etienne from the Aquila Group of Funds. Today, we have the pleasure of speaking with Stephanie Normura, portfolio manager for the Hawaiian Tax-Free Trust and also Stephen Dodge, senior investment analyst for the Trust. How are you today, Stephanie and Stephen?

Stephen Dodge:
Doing good.

Stephanie Nomura:
Good. How are you doing?

Interviewer:
Excellent. Let's get right to it. Stephen, summer is typically a time of higher redemptions in the municipal bond market. What is the environment like for individual bond buyers right now, considering the scarcity of new issue supply and what advantages does Hawaiian Tax Trust have as an institutional buyer?

Stephen Dodge:
Thanks, Pierre. There's usually a large number of maturities and calls in the muni market throughout the summer months. This does serve to depress yields throughout the summer and now the market participants are looking for opportunities to invest the proceeds back into tax-free securities. Fortunately, in Hawaii, there are some new issues that usually come to market during the summer, which does help to dampen the supply crunch.

As an institutional buyer, we have a couple advantages during the summer. The largest advantage comes in relation to the new issues. Because of our size and consistent participation, we are notified when the issues are here in the market and can receive large allocations due to our institutional status. The second advantage comes when individual investors rebalance their portfolio during this high trading volume period. Because we're out in the market monitoring the supply daily, we're usually the first call from brokers trying to find buyers. This environment allows us to pick up odd lot positions at favorable prices.

Interviewer:
Excellent. What does the overall health of the municipal bond market nationally and in Hawaii? And what are the benefits of investing in a state specific municipal bond fund versus a national municipal bond fund?

Stephen Dodge:
There are pockets of instability like Puerto Rico and Illinois, but for the most part, municipal issues are very stable. Issuers are still grappling with the recent tax law changes that made it difficult to pre refund muni issues, has cut down on issuance, and the lower issuance has driven down yields in addition to the drop in treasury rates. That being said, the Hawaiian muni market is doing well. We benefited from a large influx of tourists and despite the expectations that tourism growth rates would fall back after these recent growth numbers, we are continuing to see solid visitor growth.

The Hawaii labor markets have loosened a little bit from record tightness, but generally, the Hawaii economy is stable and growing just a little slower than it has over the past few years. As far as the benefits of buying state-specific munis, there are two major advantages to investing in Hawaiian munis. The first is a little less tangible and that when you buy munis issued by your home state, you're intimately involved in the process even without buying the municipal securities, your taxes, tolls and income tied directly to Hawaii back the bonds. And the projects that are being worked on go towards infrastructure here in Hawaii.

The second benefit is more tangible and it's the biggest. That is double tax-exempt income. This is especially important in states like Hawaii where the state income tax is higher. Your tax advantage status of the income means our investors can invest in high-quality Hawaii muni issuers and enjoy a tax-free income stream. Someone in a national fund could get federally tax-exempt income, but they would still need to pay state income tax.

Interviewer:
Perfect. Stephanie, let's switch to you on a few questions here. The Fed recently cut the target rate by 25 basis points. What are your thoughts on interest rates for the remainder of the year and what are your expectations for the yield curve?

Stephanie Nomura:
It is our belief that U.S. rates will stabilize at lower levels than were previously expected at the beginning of 2019. The current inversion in the front end of the yield curve will persist unless the Fed continues to cut rates or the market begins to price in some inflation expectations. Without inflation expectations, we will continue to see the yield curve flattening. That being said, the U.S. economy is on stable footing, even if some of that economic data's pointing towards a slowdown in growth. This most recent rate caught was unusual in that the U.S. economy is not in recession and this rate cut was not a move to stimulate the economy as much as it was just to remove tightening from the market that had already deemed excessive.

We expect the Fed will cut rates again this year, but it should be done at a measured pace. The market could even be surprised if the Fed doesn't cut as much as expected. The Fed fund futures market is currently pricing in two or more rate cuts before the year end, but about another 60% chances of a fourth cut.

Interviewer:
Stephanie, we've had roughly a decade of economic extension since the great recession. What are your thoughts on where we are currently in the economic cycle and what are your expectations if economic growth slows?

Stephanie Nomura:
We've had the pleasure of experiencing the longest bull market in the U.S. history and it's been a wonderful ride. We believe we are in the mid to late cycle of the current economic expansion. Corporate earnings have been coming in strong after the tax law changed. The labor market continues to be very tight with the possibility of tightening even farther and consumer data continues to be expansionary. The economic data is indicating that growth is slowing and may continue slower as the cycle gets older. The slowing though has more to do with the woes of the global economy than it does with the U.S. economy. It is possible, if there's a continued drain on the U.S. growth from foreign countries, we could see the U.S. follow the rest of the world towards a slight recession. Although it is important to remember that the U.S. economy largely run on consumers and until the American consumer stops buying consumer goods, we don't expect this expansion cycle to stop.

Interviewer:
Lastly, Stephanie, what is your current strategy and positioning of the Fund and are there any sectors you have found value in this year?

Stephanie Nomura:
We continue to find value throughout the market. We are largely focused on opportunistically capturing liquidity premiums in the market. Being the largest Hawaii bond buyer, we have the capacity to take down attractively priced odd lots as well as participating in large new deals. We've been adding to our positions in Hawaiian electric bonds and although this is a lower credit, but still investment grade, holding it pays a wonderful yield and it's capitalized in addition to being a part of the essential infrastructure of the state. We have also been working to lengthen our duration in an attempt to lock in current rates as the global interest rate environment and U.S. rate trends point towards rates being lower for longer.

Interviewer:
Thank you very much, Stephanie and Stephen for your time today. For those of you listening, before investing in the Fund, carefully read about and consider the investment objectives, risk, 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. Mahalo for listening to this podcast.
